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5000 BHC Inspection Program

5000.0.1 INSPECTION REPORTING PROGRAM

The BHC inspection report is intended to effectively communicate the result of inspections without compromising the integrity of inspection and reporting procedures. The inspection report serves the needs of several distinct audiences. These include the bank holding company (the directors, executive management, and line management), the Federal Reserve Board and its staff, the Federal Reserve Bank, and other banking organization regulators (state, OCC, and the FDIC). It is intended that the inspection report serve as an effective and efficient vehicle for communicating conclusions, concerns, and recommendations to the principal audience, the BHC's board of directors, without sacrificing to any great extent the needs of the other users. The inspection reporting program operates on the condition that inspection workpapers can be obtained for immediate review by Federal Reserve Bank or Federal Reserve Board staff, when requested.

The presentation within the inspection report is intended to be concise and direct with the information needed by all audiences found in the core section. The core section comprises the Examiner's Comments, the Scope, Structure and Abbreviations, the Analysis of Financial Factors, an analysis of asset quality and off-balance-sheet risk, and certain other required financial statements and schedules. Supporting schedules are required and added to the core section when an area of concern or problem is addressed in the report.

One standardized bank holding company inspection report format, FR 1225, has been designed to meet the desired objectives of the full-scope report for all organizations regardless of the structure and complexity of the bank holding company under inspection. A few report pages, designated FR 1241, are to be used for BHCs that have less than $150 million in assets. These are the ''Parent Company and Nonbank Assets Subject to Classification'' page, the ''Bank Subsidiary'' page, the ''Capital Structure'' page, and the ''Other Supervisory Issues'' page. The latter two report pages are for the lead bank or other comparable bank subsidiary.

This part of the manual presents policy and procedures for the inspection process, the collection and presentation of data, and the preparation of the resulting analyses in the inspection report. Section 5010.0 corresponds directly to each page for the report (FR 1225). Manual sections 5020.0 and 5030.0 provide instructions for limited and targeted inspections.

Each report page's instructions are generally organized to state what information is to be presented on a report page, the objectives for the information that is to be presented, the potential source of the information, and how it is to be presented in the report. Also, the instructions mention other areas in the report that are affected by material reported on the page.

The examiner is reminded that the instructions contained in manual sections 5010, 5020, and 5030 are intended only as a starting point. As such, the instructions are principally directed toward the collection of information and the presentation in the report of the findings of the inspection. When working on specific functional aspects of the inspection, the examiner should also refer to the appropriate subject heading in the manual.

5000.0.2 POLICY FOR FREQUENCY AND SCOPE OF INSPECTIONS FOR BANK HOLDING COMPANIES

On October 7, 1985, the Board announced its policy, effective January 1, 1986, to increase the frequency of inspections of bank holding companies. The policy objectives are (1) to help prevent the development of problems at banking institutions and (2) to make more effective the Federal Reserve's ability to identify and resolve problems that develop nonetheless.

In general, the policy provides that—

1. the larger and more complex bank holding companies will be inspected at least annually;
2. the largest bank holding companies, and those with significant problems, will be inspected semiannually; and
3. as an exception to the general rule, small ''shell'' holding companies with no known problems and low levels of debt relative to the book value of their subsidiary bank's stock will be inspected on a more limited basis.

See section 5000.0.3 for the parameters of the policy statement.

Federal Reserve Banks are to intensify their involvement in the inspection of large organizations and those with significant problems. Greater reliance is to be placed on state examinations/inspections in the case of smaller organizations. If a state lacks the resources to conduct inspections in accordance with the specifications of the policy or is unwilling to do so, or, in the case of holding companies, lacks authority, the Federal Reserve will conduct the examinations/inspections to the extent needed to meet the specifications. In addition, if a bank holding company or its state member bank subsidiary indicates its wish to be examined/inspected by its Federal Reserve Bank, that wish should be honored.

5000.0.3 SUMMARY TABLE FOR THE FREQUENCY AND SCOPE OF BANK HOLDING COMPANY INSPECTIONS

	Asset Size						
		$500 MM to $10 Billion		*$150 MM to $500 MM*		*Less than $150 MM*	
Rating	*$10 Billion and over*	*Complex*[4]	*Noncomplex*[5]	*Complex*	*Noncomplex*	*Complex*	*Noncomplex*[7]
1 or 2	Full-scope required annually.[1] Additional limited-scope or targeted presumed annually.	Full-scope required annually. Limited-scope[2] or targeted[3] when needed.	Limited-scope required every two years. Additional limited-scope or targeted when needed.	Full-scope required annually.	Limited-scope required every 3 years.	Full-scope required every other year.	See Note 3.
3	Full-scope required annually. One limited-scope or targeted also required annually.			Full-scope required annually.	Inspection required annually, may be limited-scope or targeted.	Full-scope inspection required annually.	Inspection required every other year.
4 or 5	Full-scope required annually. One limited-scope or targeted also required annually.			Full-scope required annually; one limited-scope or targeted also required annually.	Inspection required annually.	Full-scope inspection required annually.	Inspection required annually.

SPECIAL CHARACTERISTICS:

1. BHCs formed to acquire going concerns: inspection to be conducted between the 6th and 18th months of operation, or within 36 months under specific condition, or waived if under $50 mm with specific conditions.
2. Change in control or de novo BHCs: inspection required within 12 months.
3. BHCs that fail surveillance screen or for which other significant adverse information is received: triggers in-depth off-site review to evaluate need for limited-scope or targeted inspection.

NOTES:

1. A *full-scope inspection* covers all areas of interest to the Federal Reserve in depth.
2. A *limited-scope* inspection will review all areas of activity covered by a full-scope inspection, but less intensively.
3. *Targeted inspections* will focus intensively on one or two activities.
4. A complex BHC is defined as one with material credit-extending nonbank subsidiaries or debt outstanding to the general public.
5. A noncomplex BHC is without credit-extending subsidiaries and without public debt.
6. See section 5000.0.4.5 and SR-97-27 pertaining to the frequency of inspections for small shell bank holding companies.
7. For small BHCs, Reserve Banks should explore the possibility, under appropriate circumstances, of enlisting the assistance of the primary bank regulator in conducting the inspection.

5000.0.4 INSPECTION FREQUENCY REQUIREMENTS

5000.0.4.1 Bank Holding Companies with No Identified Problems or Special Characteristics

Multinational bank holding companies and all others with consolidated assets over $10 billion are to receive a full-scope inspection annually to be coordinated with the examination of the lead bank to the extent possible. Although the inspection of the holding company and the examination of the lead bank need not be commenced simultaneously, they should overlap and rely on financial statements as of the same date, if possible, in order to facilitate the analysis and the presentation of findings to management and directors. A limited-scope or targeted inspection of these companies is also to be conducted between the annual full-scope inspections, the precise timing to be determined by off-site surveillance reports and by opportunities to coordinate with the examination of the lead bank. The requirement for a limited-scope or targeted inspection may be waived by the Reserve Bank if, on the basis of the findings of the last full-scope inspection and of the surveillance system, the institution is judged to be in satisfactory condition.

Complex bank holding companies (defined as companies with nonbank subsidiaries that extend a material amount of credit or companies whose parent has a material amount of debt outstanding to the general public) with consolidated assets between $500 million and $10 billion receive a full-scope inspection annually. Noncomplex ''shell'' organizations in this size group are to receive a limited-scope inspection every two years. These inspections should be conducted, to the extent possible, in coordination with the examination of the lead bank. All bank holding companies in this size group should be subject to additional limited-scope or targeted inspections when the Reserve Bank has information that suggests the institution may be developing significant problems.

Complex bank holding companies with consolidated assets between $150 million and $500 million are to receive an annual full-scope inspection. The inspection frequency for small shell bank holding companies (SSBHCs) with assets of less than $1 billion follows the risk-focused program and its supervisory cycle for its lead bank. See section 5000.0.4.5 for the definition of SSBHCs and the supervisory policy and guidance associated with the inspection of this group of bank holding companies. (Also see SR-97-27.) The program provides, in general, for enhanced monitoring of banking organizations on a continual basis and for greater supervisory attention to specific weaknesses that need attention. The program permits a more flexible approach to supervising those entities in a risk-focused environment that is designed to enhance the overall effectiveness and efficiency of the Federal Reserve System's supervisory efforts.

Inspection frequency for bank holding companies with consolidated assets of less than $150 million is to be determined by their structural characteristics and their debt levels. Complex bank holding companies are to receive a full-scope inspection every other year.

5000.0.4.2 Bank Holding Companies Requiring Special Supervisory Attention

Inspection frequency of bank holding companies requiring special supervisory attention is to be determined by both the size and complexity of the organization. The most intensive frequency requirements are directed at bank holding companies rated BOPEC composite 4 or 5, or whose lead bank subsidiary has been rated CAMELS composite 4 or 5. All bank holding companies so rated with consolidated assets over $500 million are to receive an annual full-scope inspection and a limited-scope or targeted inspection during the interval between full-scope inspections. The same requirements apply to complex bank holding companies with assets between $150 million and $500 million. To the extent possible, inspections of these 4- and 5-rated bank holding companies are to be coordinated with the examination of the lead bank subsidiary. Noncomplex bank holding companies with assets of $500 million or less are to receive an annual inspection whose scope may be determined by the Reserve Bank based upon the nature of the companies' problems.[1] Complex holding companies with assets under $150 million are to receive a full-scope inspection annually.

Bank holding companies rated composite 3 with consolidated assets over $500 million are subject to the same requirements as those rated 4 or 5. Bank holding companies with con-

1. Reserve Banks may, under appropriate circumstances, enlist the assistance of the primary bank regulator in conducting these inspections.

solidated assets between $150 million and $500 million with complex structures are to receive an annual full-scope inspection; those with noncomplex structures are to receive an annual inspection, the scope of which is to be determined by the Reserve Bank. Complex bank holding companies with assets under $150 million should receive a full-scope inspection annually; noncomplex bank holding companies with assets less than $150 million are to be inspected every other year. The type of inspection for these small noncomplex companies may be determined by the Reserve Bank.

5000.0.4.3 Bank Holding Companies with Special Characteristics

Bank holding companies formed to acquire an existing bank are to be inspected to determine their compliance with Federal Reserve regulation and the extent to which they have fulfilled commitments the Board of Governors required of the organization in approving its application. Such inspections should be conducted between the 6th and 18th month after the acquisition; their scope is to be determined by the Reserve Bank. If information available to the Reserve Bank—the most recent examination of the bank, the most recent FR Y-6 and FR Y-9 reports from the holding company, and other pertinent information—indicates that (1) the condition of the bank and bank holding company is satisfactory, (2) the bank holding company is fulfilling its commitments to the Board of Governors, and (3) the ratio of the parent's debt to its proportionate interest in the book value of the subsidiary bank (or banks) is less than 75 percent then, at the Reserve Bank's discretion, the inspection may be delayed as long as 36 months after the formation. Moreover, the requirement for an inspection may be waived in the case of a bank holding company whose bank subsidiary has less than $50 million in total assets, if in the Reserve Bank's judgment, (1) the holding company's financial condition is satisfactory, and its commitments to the Board of Governors are being fulfilled, and (2) the ratio of the holding company's debt to its proportionate interest in the book value of the subsidiary bank (or banks) is less than 75 percent.

Bank holding companies that have undergone a change in control and de novo bank holding companies organized to acquire de novo banks, are to receive a full-scope inspection within 12 months following the change in control or formation. A limited-scope or targeted inspection may be conducted in lieu of the full-scope inspection if, in the judgment of the Reserve Bank, the financial condition of the holding company appears satisfactory.

In those cases when bank holding companies fail the surveillance screen or when other information suggests the company has experienced an adverse development, an in-depth off-site review will be made to determine the need for a limited-scope or targeted inspection.

5000.0.4.4 Inspection of Nonbank Subsidiaries of Bank Holding Companies

The instructions in this subsection are intended to supplement the guidance in the Board's policy statement regarding the frequency and scope of inspections for bank holding companies as set forth above and included with SR-85-28 (October 7, 1985). See sections 4030.0.2, 5010.6.3, and 5010.31; SR-93-19 (April 13, 1993); and FRRS 3-1531.

5000.0.4.4.1 On-Site Reviews of Nonbank Subsidiaries

Notwithstanding the risk assessment that is to be performed for each nonbank subsidiary (see section 4030.2), an on-site review is required for the following nonbank subsidiaries:[2]

1. *Any individual subsidiary that meets either of the following two significance criteria or that is otherwise deemed by the Reserve Bank to have a significant impact on the bank holding company's condition or performance:*[3]
   - The subsidiary has total assets equal to 10 percent or more of the bank holding company's consolidated tier 1 capital.

2. The on-site review for these nonbank subsidiaries should be performed with the same frequency as required for a full-scope inspection but may be performed as a targeted review that is not concurrent with the full-scope inspection.

3. Generally, examiners would not be required to conduct an on-site review of those nonbank subsidiaries that hold premises that are necessary for the operation of the banks or other affiliates. Furthermore, these criteria are not intended to include nonbank subsidiaries that have been subject to recent on-site review by another federal or state banking agency in accordance with interagency agreements or Reserve Bank agreements with state banking supervisors (for example, the Interagency EDP Examination, Scheduling, and Distribution Policy). These criteria also should not limit Reserve Bank flexibility in coordinating supervisory efforts with functional regulators at the federal or state level.

- The subsidiary's total operating revenue equals 10 percent or more of the bank holding company's consolidated total operating revenue.[4]

2. *Nonbank subsidiaries that are issuing debt to unaffiliated parties or relying to a significant degree upon affiliated banks for funding.* ''Significant'' is defined as debt that exceeds the lesser of $10 million or 5 percent of the bank holding company's consolidated tier 1 capital.
3. *Those mortgage banking subsidiaries and other nonbank subsidiaries involved in asset securitization, and all nonbank subsidiaries that generate assets and sell them to affiliated parties.* Examiners involved in the on-site review of these subsidiaries should consider the appropriate examination guidelines for asset securitization, for example, those set forth in SR-90-16 (May 25, 1990) and in SR-91-2 (January 31, 1991), dealing with collateralized mortgage obligations (CMOs) and real estate mortgage investment conduits (REMICs). See also section 2190.0.
4. *Consistent with existing inspection guidelines, all section 20 subsidiaries should be subject to an annual on-site review.* See SR-90-8 (February 27, 1990) and section 2185.0.
5. *All nonbank subsidiaries that broker or deal in derivative instruments, as a principal or agent, to unaffiliated parties.*

Furthermore, for each credit-extending nonbank subsidiary that meets the above on-site review criteria, examiners are to review sufficient credit files through either judgmental or attribute sampling to assess the adequacy and accuracy of internal risk-identification systems.

5000.0.4.4.2 Off-Site Review of Nonbank Activities

Reserve Banks should review reports submitted to the Federal Reserve to monitor the condition and performance of significant nonbank subsidiaries between inspections. FR Y-series reports on individual and combined nonbank subsidiaries should be used for this purpose and, when available, financial statements on nonbank activities that are included with the FR Y-6 annual reports of bank holding companies should also be reviewed.[5] When warranted by a deterioration in the condition and performance of nonbank subsidiaries, the significance of the nonbank subsidiaries (including those selected for on-site review as discussed above), or other reasons, Reserve Banks should require bank holding companies to submit additional information (for example, balance sheets, income statements, and schedules on nonperforming assets and off-balance-sheet activities) obtained from a company's internal systems. Furthermore, on an exception basis, Reserve Banks will be expected to obtain from a bank holding company's internal systems information on the off-balance-sheet exposures of nonbank subsidiaries and to monitor the risks posed by these exposures when considered significant. If the Reserve Bank determines that a situation warrants material departure from these procedures, it should be discussed with Board staff.

5000.0.4.5 Risk-Focused Supervision Policy for Small Shell Bank Holding Companies

The Board of Governors approved, effective November 30, 1997, a risk-focused program for Federal Reserve Banks to follow in supervising small shell bank holding companies (SSBHCs) with assets of less than $1 billion. Small shell bank holding companies are defined for the purpose of this program as those companies with less than $1 billion in consolidated assets that do not have debt outstanding to the public and that do not engage in significant nonbank activities. A nonbank activity could be considered

4. For bank holding companies, ''total operating revenue'' is the sum of total interest income and total noninterest income (before extraordinary items).

5. For example, combined financial statements of nonbank subsidiaries are submitted to the Board quarterly on FR Y-11Q, and annually by type of nonbank subsidiary on FR Y-11AS when the following criteria are met:
- the bank holding company has total consolidated assets of $1 billion of more or
- the bank holding company has total consolidated assets of $150 million or more but less than $1 billion and meets one or more of the following conditions:
  - — the assets of the bank holding company's nonbank subsidiaries make up 5 percent or more of the bank holding company's total consolidated assets
  - — the net income of the bank holding company's nonbank subsidiaries makes up 5 percent or more of the bank holding company's total consolidated net income
  - — the bank holding company's investments in and/or loans and advances to nonbank subsidiaries exceed 5 percent of the bank holding company's total consolidated equity capital

Annual reports of selected financial data for individual nonbank subsidiaries are also submitted to the Board on FR Y-11I. Section 20 subsidiaries submit quarterly financial statements to the Board on FR Y-20.

significant based on the scope or type of activity. For example, credit-extending activities as well as investment and trading activities in which the holding company acts as a principal would generally be considered significant. Providing services on a fee basis, such as the provision of data processing services to affiliated and/or unaffiliated banks or the sale of instruments on an agency basis, may also, in certain instances, be considered significant, depending on the scale of the activity or other factors that may pose direct or indirect risk to the holding company or any insured depository institution subsidiary.

The risk-focused supervision program builds upon long-standing Board policies aimed at the early identification of problems in banking organizations and at improved coordination and cooperation with other federal banking agencies and state banking departments. In general, the program provides for enhanced monitoring of bank holding companies on a continual basis and for greater supervisory attention to specific weaknesses that need correction.

In 1985, the Board adopted guidelines that called for periodic on-site inspections of all bank holding companies in accordance with a standard frequency based on the size and condition of the consolidated organization. (See section 5000.0.4 and S-2493, October 7, 1985, and SR 85-28.) The supervisory program of 1997 supersedes the 1985 inspection frequency guidelines, but only for SSBHCs. The SSBHC program permits a more flexible approach that supervises these entities in a risk-focused environment designed to enhance the overall effectiveness and efficiency of the Federal Reserve System's supervisory efforts.

The Board's policy sets forth the framework for applying risk-focused supervision concepts to SSBHCs. In recent years, changes to statutory frequency requirements for bank examinations, enhancements to off-site monitoring procedures, and the implementation of risk-focused examination practices have made it possible to focus supervisory activities more effectively on those SSBHCs exhibiting the greatest degree of risk. Accordingly, the Federal Reserve adopted a risk-focused supervision program for SSBHCs that tailors supervisory activities for these companies based on an assessment of their reported condition and activities and the condition of their bank subsidiaries. Based on those assessments, Reserve Banks are required to develop a strategy for addressing the supervisory issues related to each organization. For companies in which significant risk factors are present, Reserve Banks must consider a range of supervisory responses, including informational requests and management interviews, visitations or advisory visits, and on-site targeted and full-scope inspection activities.

5000.0.4.5.1 Risk-Assessment Process

Under the program, Reserve Banks should perform a risk assessment for each SSBHC at least once during each "supervisory cycle." For each company, its supervisory cycle will be determined by the examination frequency mandated for the lead subsidiary bank. The purpose of this risk assessment is to determine whether the risk profile of the SSBHC has weakened, the company is having an adverse effect on the subsidiary bank(s), or there are violations of law or regulation warranting further review. When the risk assessment does not raise significant supervisory concerns, the assessment serves as the basis for assigning a final BOPEC rating for the company. The risk assessment should be completed within 45 days of receipt of the lead bank's full-scope examination report. While risk assessments will be driven in most cases by the conclusions expressed in the current examination reports for subsidiary banks, they should also incorporate information from other sources available at the Reserve Bank, such as regulatory financial reports, previous inspection reports, and surveillance reports. The preparation of risk assessments should not routinely require requests for additional information from the company. Risk assessments should include reviews of the following areas:

1. financial condition of the parent company, including an evaluation of debt levels and cash flow
2. financial condition of bank subsidiaries
3. consolidated analysis (if applicable)
4. management, including any changes to senior management or ownership
5. compliance with laws and regulations by the bank holding company and its bank subsidiaries, as well as compliance with regulatory orders and other requirements imposed in connection with the granting of any application or other request
6. intercompany and insider transactions as addressed by examinations and financial reports
7. new activities and recent or planned acquisitions

In the process of conducting the risk assessment, Reserve Banks should pay special attention to bank examination report findings pertaining to possible violations of law or inappropriate transactions. In addition, changes in the organizational structure, management, or ownership of the company should be assessed to determine whether these may be cause for concern. The use of automated analytical tools and screens to perform the required financial analysis will normally suffice. When this review discloses no material supervisory concerns, the risk assessment should be used to assign a final BOPEC rating to the company.

5000.0.4.5.2 Development of Supervisory Strategies

If no unusual supervisory issues or concerns are identified by the risk assessment, no special follow-up with the company is necessary. However, all companies should continue to be monitored under existing surveillance and monitoring programs aimed at identifying significant changes in a company's condition, performance, or compliance profile that may prompt further review. Such changes may include (1) a material decline in the earnings performance or capital position of a bank subsidiary; (2) significant changes in management or ownership; (3) a large increase in outstanding debt; (4) new or expanded activities that may pose additional risk; (5) rapid growth; (6) questionable insider or intercompany transactions; (7) less-than-satisfactory SEER or other performance factors for the subsidiary bank(s); or (8) information suggesting less-than-satisfactory compliance with regulatory orders and other requirements imposed in connection with the granting of any application or other request. When these or other changes raise supervisory concerns, the risk assessment should be updated.

When a risk assessment is prepared in conjunction with the review of an examination report for a bank that is rated satisfactory or better, but supervisory concerns such as those listed above preclude the immediate assignment of a satisfactory BOPEC rating, a strategy for addressing those concerns must be developed and documented as part of the risk assessment. The strategy would typically require gathering additional written or verbal information from the bank regulator or the company. When supervisory concerns are not satisfactorily addressed through off-site measures, a number of remedies should be considered, including visitations; targeted reviews of internal processes and specific transactions; or broader inspections encompassing a review of more significant financial and managerial issues, processes, or reporting systems. The specific timing of these activities is not prescribed by this policy; however, the on-site activity should be conducted as soon as possible following the off-site review, given that it is required only in situations when supervisory concerns have surfaced.

5000.0.4.5.3 Strategies for Problem and Deteriorating Companies and Those with Identified Management Weaknesses

A full-scope, on-site inspection should be conducted the first time that the risk assessment preliminarily supports the assignment of a BOPEC rating of 3 or worse, or a management rating of less than satisfactory. Typically, this would occur when a significant subsidiary bank's CAMELS composite or management component is assigned a rating of 3, 4, or 5. In such a case, an inspection is deemed necessary to ensure that sufficient information is available to develop an effective supervisory strategy. The purpose of the inspection is (1) to confirm the Reserve Bank's understanding of the SSBHC's financial condition, activities, and management oversight of the bank, as well as whether violations of law or regulation or inappropriate intercompany transactions have occurred; (2) to determine the extent to which any of these factors is having an adverse effect on the bank(s); (3) to identify steps the holding company should take to strengthen its subsidiary bank(s); and (4) to assign a BOPEC rating to the company. Based on these inspection results and information available before the inspection, and in consultation with the bank's federal and state supervisory authorities, the Reserve Bank should develop a supervisory strategy for dealing with the company.

For situations in which the company and management are adversely affecting the bank, the supervisory strategy should contemplate enforcement activities that are coordinated with those of the bank's federal or state regulators and are a clear delineation of the actions and reports expected of holding company management. Plans for additional supervisory activities, either on-site or off-site, should be included. The Reserve Bank should designate a primary contact who is responsible for monitoring the company's condition and updating the risk assessment and supervisory strategy. For situations in which the bank holding company is neither contributing to the bank's problems nor in a position to serve as a source of strength, a typical supervisory strategy would be to maintain an open dialogue with the bank's primary regulators and to review relevant regulatory reports.

5000.0.4.5.4 Communicating Supervisory Findings

When a risk assessment discloses no supervisory concerns, or when an existing 3, 4, or 5 BOPEC rating is reaffirmed through the risk assessment, a brief letter detailing this overall conclusion and the SSBHC's BOPEC rating should be forwarded to the company. The following is an example of such a letter.

PROTOTYPE LETTER TO COMMUNICATE FINDINGS OF A RISK ASSESSMENT

Board of Directors
[name and address of SSBHC]

Dear Members of the Board:

This Reserve Bank has conducted a review of [SSBHC] based primarily on financial and other information regularly provided by your organization to the Federal Reserve and other supervisory agencies, as well as the recent examination report for [Bank], SSBHC's subsidiary bank. The review was conducted by Examiner [EIC] and disclosed no supervisory concerns [or, no concerns in addition to those previously communicated to the institution].

[SSBHC] is assigned a composite BOPEC rating of [numerical rating], based on a bank component rating of [numerical rating] and a parent company component rating of [numerical rating]. Management is regarded as [rating]. The ratings assigned to the bank holding company are part of the overall findings of this review and are confidential. They should not be disclosed or made public.

If you have any questions or comments regarding the risk assessment, or any regulatory matter concerning your organization, please contact [Reserve Bank contact] of this Reserve Bank at [telephone number].

Sincerely yours,

When more detailed off-site reviews are performed or on-site targeted inspections or visitations are conducted, Reserve Banks may also communicate the scope of these activities, relevant findings, and supervisory recommendations to the company in a letter. Alternatively, the findings can be conveyed to the company in a more structured report similar to the existing bank holding company inspection report. When full-scope inspections are conducted for SSBHCs, use of existing bank holding company report pages is mandatory. However, the only pages required to be completed are the core pages—the Examiner's Comments and Matters Requiring Special Board Attention, the Scope of Inspection and Abbreviations, Analysis of Financial Factors, and the confidential pages (A through D). (See section 5010.0.1.) The use of any other page (including financial data pages) should be limited to situations in which its presentation is useful for supporting conclusions or recommendations involving areas of concern.

With regard to correspondence and reports to satisfactorily rated SSBHCs, it is generally appropriate for commissioned, non-officer personnel who are designated as the primary contact or portfolio manager for such companies to have signing authority. Reports and other official communications to problem and deteriorating companies require an officer's signature.

5000.0.4.5.5 Risk-Management Ratings for SSBHCs

Effective January 1, 1997, the Uniform Financial Institutions Rating System (CAMELS) was amended specifically to require the evaluation of risk-management systems both in the overall management rating and in the individual financial components. By definition, financial and management activities at SSBHCs are conducted in the subsidiary banks, and the risk-management process of the company is essentially the same as that of the bank(s). Accordingly, a separate risk-management rating is not required of SSBHCs.

5000.0.4.5.6 Newly Formed SSBHCs

Consistent with long-standing Federal Reserve policy, an initial full-scope, on-site inspection of a newly formed SSBHC should be conducted within the first 12 to 18 months of operations. Thereafter, risk assessments should be performed in accordance with the SSBHC inspection policy.

5000.0.5 BANK HOLDING COMPANIES EXEMPT FROM THE PROHIBITIONS OF SECTION 4 OF THE BHC ACT OF 1956

Bank holding companies exempt from the prohibitions of section 4 of the Bank Holding Company Act of 1956, as amended, as a result of any of the following exemptions will not be subject to any required periodic inspection:

1. section 4(a)(2)—permanent grandfather rights
2. section 4(c)(i)—labor, agricultural, or horticultural organization
3. section 4(c)(ii)—85 percent family-owned
4. section 4(c)(12)—irrevocable declaration to cease to be a BHC
5. section 4(d)—hardship exemption

However, the Reserve Bank should continue to monitor the financial condition of such holding companies and should conduct inspections whenever there is any indication of a potential problem in a subsidiary bank.

5000.0.6 OUT-OF-DISTRICT INSPECTIONS

In addressing the issue of Reserve Bank supervision of out-of-District facilities, the Board approved the policy that the Reserve Bank of the District where the parent holding company or lead bank is located would be responsible for the supervision, examination, inspection, and applications of all of that company's out-of-District facilities. The following administrative procedures and guidelines have been established.

The Reserve Bank responsible for the supervision of the parent holding company is also responsible for the supervision of all of its nonbank subsidiaries, regardless of location. Classification of assets of out-of-District nonbank subsidiaries should be performed at the office of the parent company by the responsible Reserve Bank when sufficient information is available or could be made available upon request. In adopting the inspection frequency requirements for selected bank holding companies (see above), the Board recognized that the inspection of nonbank subsidiaries and the classification of nonbank assets was an essential part of the inspection process. However, an on-site inspection of out-of-District nonbank subsidiaries should not be done on a routine basis by the responsible

Reserve Bank. In those cases in which the responsible Reserve Bank concludes that information necessary to classify assets is available only on-site, or when problems or other material circumstances lead to the conclusion that an on-site inspection is required, the local Reserve Bank should be asked to perform the inspection. Staff from the responsible Reserve Bank may participate when supervisory problems are serious enough to warrant the involvement of the responsible Reserve Bank.

5000.0.7 MULTI-TIER BANK HOLDING COMPANY INSPECTIONS

With the marked increase in interstate banking activity, there exist a growing number of multi-tier bank holding company structures in which the top-tier and the second-tier institutions (as well as other lower-level tiers) are in different Federal Reserve Districts. Consistent with the policy presented in SR-78-464 on the supervision of out-of-District nonbank subsidiaries, the general framework presently in place will remain the primary guideline. The Reserve Bank responsible for the supervision of the top-tier bank holding company will also be responsible for the supervision of all of the subsidiary tier bank holding companies and their nonbank operations, regardless of the District where they are located.

Given this overall policy direction, general guidelines are established for inter-District coordination pertaining to multi-tiered bank holding companies where the second-tier institution is located in a different District from that of the top-tier parent holding company. (See also SR-89-25.)

5000.0.7.1 Population of Second-Tiers Suitable for On-Site Inspection

A second-tier holding company (and other lower tiers) that (1) has assets greater than $5 billion, (2) irrespective of size, has a financial condition deemed in need of special supervisory attention (BHC or lead bank rated 3, 4, or 5), or (3) is prone to insider or abusive practices would usually warrant an on-site inspection, the preparation of an inspection report, the assignment of a rating, and a presentation of findings to management, as well as its board of directors if the board includes any "outside directors." To the extent possible, the inspection should be coordinated with that of the top-tier parent holding company.

5000.0.7.2 Frequency Guidelines for Second-Tier BHCs over $5 Billion

It shall be assumed that the second-tier will be subject to inspection frequency guidelines that pertain to the top-tier on a consolidated basis. Although top-tier companies greater than $10 billion in assets may be subject to a second on-site presence annually, these guidelines are not intended to require a second annual presence for the second-tier company.

5000.0.7.3 Frequency Guidelines for Second-Tier BHCs Rated 3, 4, or 5

In those cases where the second-tier holding company requires special supervisory attention, or is prone to insider or abusive practices, the responsible Reserve Bank may conclude that the second-tier holding company warrants inspection at least as frequently or more frequently than the top-tier holding company. Under such circumstances, it would be appropriate for the second-tier holding company to receive a second presence annually despite the fact that the top-tier holding company, may be inspected less frequently. Problem bank holding companies acquired as "debts previously contracted" need not be inspected any more frequently than the top-tier company.

5000.0.7.4 Second-Tier Shell BHCs

To the extent that the second-tier holding company is strictly a shell without outside directors and no substantive policymaking authority, and the records necessary to review its operations and condition are available at the location of the top-tier holding company, then the inspection of the second-tier need not be done on-site, but rather may be done at the top-tier parent location. In either case, if an inspection is conducted, a rating should be assigned to the second-tier holding company. (See SR-89-25.)

5000.0.7.5 Staffing of Inspections of Out-of-District Second-Tier BHCs and Nonbank Subsidiaries

To the extent possible and consistent with the principles of efficiency and effectiveness, the responsible Reserve Bank should rely on the local Reserve Bank to provide the resources necessary to conduct the inspection of out-of-District second-tier bank holding companies and nonbank subsidiaries that are located in that District, including nonbank subsidiaries held directly by the parent. However, the responsible Reserve Bank has overall responsibility for the consolidated organization and must determine the appropriate scope of the inspection to ensure that it is consistent with the overall supervisory objectives for the consolidated organization. The following guidelines supplement SR-89-25 and SR-79-464.

Consistent with this overall responsibility, the responsible Reserve Bank should also decide, in consultation with the local Reserve Bank, how the inspection will be managed. The examiner-in-charge (EIC) may come from either the responsible Reserve Bank or the local Reserve Bank, or in some instances co-EICs may be appropriate. Selection of the EIC can depend on a variety of factors, including the composition of the examination crew, the complexity of the supervisory plan, the condition of the organization, the degree of centralization within the consolidated organization, and the knowledge of local banking conditions. For those inspections involving co-EICs, the EIC from the responsible Reserve Bank will have overall responsibility for the findings and the rating resulting from the inspection. The co-EICs will, of necessity, communicate and coordinate closely, ensuring that all matters affecting the supervised banking organization are carefully considered and presented as a single Federal Reserve position. (See SR-93-48.)

5000.0.7.6 Scope of Inspection

The inspection of the second-tier ought to be conducted on a full-scope basis at least every other inspection. Interim inspections may be done on a limited-scope or targeted-scope basis. Any full-scope inspection of a second-tier bank holding company should include a review of the loan-administration function and an evaluation of the adequacy of the internal loan-review capability in order to determine the reliance that can be placed on the information by the regulators and the parent.

5000.0.7.7 Need for a Report

When an on-site inspection of a second-tier holding company is conducted, inspection findings should ordinarily be presented in a separate report to its management and a summary provided to the board of directors (in those cases where any outside directors are on the board). The inspection report on the top-tier holding company will incorporate the findings pertaining to any coordinated inspection of the second-tier holding company either by reference to a separate report to be attached, or by inclusion of relevant findings in a summary presented in the body of the report on the top-tier company.

5000.0.7.8 Surveillance and Reporting Requirements

The local Reserve Bank is responsible for maintaining a high level of current awareness of the financial condition and activities of large second-tier holding companies (and other lower-tier companies) in its District. To assist in this regard, quarterly consolidated financial statements on Form FR Y-9C should be requested by the *responsible* Reserve Bank from all second-tier (and lower-tier) holding companies with consolidated assets greater than $1 billion. As is the case with Form FR Y-9LP which is already being submitted by a second-tier holding company, the reporting holding company should be instructed to send the completed Form FR Y-9C directly to the Reserve Bank responsible for the top-tier bank holding company. The responsible Reserve Bank, in turn, should electronically transmit the data to the Board and also send a hard copy to the local Reserve Bank for its information. Any analysis of the second-tier holding company's condition should be exchanged between Reserve Banks.

5000.0.7.9 Intra-District Multi-Tiered BHCs

In those cases where a multi-tier holding company exists within a single Federal Reserve District, inspection guidelines remain essentially the same as those presented above.

5000.0.8 INTERAGENCY INSPECTION/EXAMINATION AGREEMENTS

In order to ensure continuing close coordination and consistency in the examination and supervision of banking organizations, the three federal bank regulatory agencies (i.e., Federal Reserve System (FRS), Comptroller of the Currency (OCC), and Federal Deposit Insurance Corporation (FDIC)), have adopted two policies intended to enhance the interagency supervision of bank holding companies and their bank and nonbank subsidiaries.

5000.0.8.1 Interagency Coordination of BHC Inspections and Subsidiary Bank Examinations

The first policy was adopted in conjunction with the Federal Financial Institutions Examination Council (FFIEC), and addresses large and problem holding companies and holding companies with deteriorating financial conditions. The policy requires the agencies to coordinate the bank holding company inspection and the examination of the lead bank subsidiary for—

1. any bank holding company with consolidated assets in excess of $10 billion;
2. any bank holding company or bank holding company subsidiary lead bank rated composite 4 or 5 (the two lowest rating categories) under the Bank Holding Company Rating System or the Uniform Rating System for banks; and
3. any bank holding company or bank holding company subsidiary lead bank rated composite 3 (the middle of the rating categories) whose financial condition appears to have worsened significantly since the last inspection/examination.

It is recognized that substantial problems could develop for a holding company as a result of serious difficulties in significant subsidiary banks other than its largest bank, and the policy as adopted affords the agencies the flexibility to conduct coordinated examinations when any bank, regardless of size, has problems warranting supervisory concern. In implementing this aspect of the policy, the agencies will conduct coordinated examinations when any significant bank subsidiary is rated 4 or 5, or when the financial condition of any other subsidiary causes serious concern about that subsidiary's impact on the condition of the holding company or any other banking affiliate.

5000.0.8.2 Interagency Agreement to Conduct Concurrent Examinations of Certain BHCs and Their Lead Bank Subsidiaries

The second policy implements a program to conduct an annual concurrent examination by the Federal Reserve and the OCC or the FDIC of holding companies with consolidated assets greater than $1 billion and their lead bank subsidiaries. The major provisions of this program are as follows:

1. The agencies will conduct concurrent examinations of certain bank holding companies and their lead bank subsidiaries, as well as any other subsidiary or subsidiaries as appropriate. Concurrent examinations are defined as the performance of certain on-site examination activities by examiners from the agencies on a simultaneous or coordinated basis so as to enhance cooperation, minimize potential duplication, and reduce burden on banking institutions. Concurrence does not necessarily require coincidence of beginning and closing dates of bank and holding company examinations. The geographical location of the lead bank shall determine the district bank and regional office responsible for coordination of examination logistics of all involved subsidiaries.
2. The banking organizations to which this program will apply will be mutually agreed upon by the Director of the Division of Banking Supervision and Regulation (FRS) and the Senior Deputy Comptroller for Bank Supervision (OCC) for holding companies with lead national bank subsidiaries, and by the Director of the Division of Banking Supervision and Regulation (FRS) and the Director of the Division of Bank Supervision (FDIC) for holding companies with lead state-chartered nonmember bank subsidiaries. These banking organizations will be specified in a list prepared jointly by the FRS and OCC for holding companies with lead national banks, and by the FRS and FDIC for holding companies with lead state-chartered nonmember banks.
3. In general, this program will apply to holding companies whose lead bank subsidiaries are national or state-chartered nonmember banks, and whose consolidated holding company assets are equal to or exceed $1 billion. However, the program may be applied to other holding companies upon the agreement of the FRS, OCC, and FDIC.

4. In general, banking organizations included in the program will be examined on an annual basis, although each agency reserves the right not to participate in an examination due to resource constraints or other supervisory imperatives.
5. The agencies will mutually agree upon the division and sharing of work assignments and routines for concurrently examining the holding company and the bank with the goal of minimizing unnecessary overlap, duplication, and burden on the banking organization. In general, the division of examination duties will be based upon the locus of primary statutory examination and supervisory responsibility, but will recognize that in some areas the agencies have common supervisory interests and needs for information.
6. Findings, conclusions, recommendations, reports, and transmittal letters pertaining to examinations of the holding company or subsidiaries included in the program should be provided to or discussed with the district bank and regional office of the other agency responsible for coordination of the concurrent examinations before being forwarded to management or directors of the holding company or bank(s).
7. Each district bank and regional office receiving examination information from the other agency should inform the other agency on a timely basis of any major findings, conclusions, or recommendations with respect to which the receiving agency substantially disagrees.
8. Before forwarding examination results to management or directors, every effort should be made to resolve significant differences between the district bank and regional office concerning major examination findings, conclusions, and recommendations.
9. Significant differences that cannot be resolved by examiners or officials at the regional office-district level should be referred to the Director of the Division of Banking Supervision and Regulation of the Board of Governors (FRS) and the Senior Deputy Comptroller for Bank Supervision (OCC) for ultimate resolution in the case of a holding company and its lead national bank. Cases that involve significant differences at the regional office-district level with regard to a holding company and its lead state-chartered nonmember bank will be referred to the Director of the Division of Banking Supervision and Regulation of the Board of Governors (FRS) and the Director of the Division of Bank Supervision (FDIC) for ultimate resolution. If major differences cannot be resolved, the agencies may proceed with the transmission of examination findings and conclusions to management according to each agency's existing procedures.
10. Reasonable efforts should be made by the agencies to hold joint or combined final interviews and meetings with the management or directors of the holding company and the bank subsidiaries to discuss significant supervisory issues involving examination results. In the ordinary course, the district bank (FRS) would initiate meetings with the holding company, and the regional offices (OCC and FDIC) would initiate meetings with the national or state-chartered nonmember bank subsidiaries, respectively. If such meetings are not appropriate or feasible, each agency should inform the other agency in advance of any plans to meet with management or directors of the holding company or bank to discuss significant supervisory matters, and the other agency should be given the opportunity to attend such meetings or send a representative. If the other agency does not attend or send a representative, significant results of the meetings should be transmitted to that agency.
11. This agreement is intended to foster cooperation and is not meant by the exclusion of other arrangements to preclude other reasonable efforts or cooperative arrangements to strengthen interagency coordination and consistency.
12. Nothing in this agreement precludes or prohibits the agencies from examining any entity for which the agency has statutory examination authority, or from taking timely supervisory action against any entity for which the agency has statutory supervisory authority.

5000.0.8.3 Interagency Policy Statement on Examination Coordination

On June 10, 1993, an interagency policy statement was developed to strengthen coordination and cooperation among the federal banking agencies responsible for examining and supervising depository institutions and their holding companies, thus minimizing the disruptions and burdens associated with the examination process.

The policy expands on existing interagency agreements. See SR-93-30.

5000.0.8.3.1 Primary Supervisory and Coordination Responsibility

Examinations or inspections of a particular legal entity are to be conducted by the federal regulatory agency that has primary supervisory authority for that entity. In carrying out its supervisory responsibilities for a particular entity within a banking organization, each regulatory agency, to the extent possible, is to rely on examinations or inspections conducted by the primary regulator of the affiliate, thereby avoiding unnecessary duplication and unnecessary disruption of the banking organization. In certain situations, however, it may be necessary for a regulatory agency other than the entity's primary supervisory authority to participate in the examination or inspection in order to fulfill its regulatory responsibilities.

Primary supervisory authority and coordination responsibilities are organized as follows:

OCC	national banks
FDIC	state nonmember banks
OTS	thrift holding companies and savings associations
FRB	parent bank holding companies, nonbank subsidiaries of bank holding companies, the consolidated bank holding company, and state member banks

The primary federal regulator is responsible for scheduling, staffing, and setting the scope of supervisory activities, including coordinating formal and informal *administrative* actions, as necessary. In fulfilling these responsibilities, the primary regulatory agency is to consult closely with the other appropriate agencies when there is need for coordination.

5000.0.8.3.2 Overview of Examination Coordination and Implementation Guidelines

The agencies are to make every effort to coordinate the examinations and the inspections of banking organizations. Coordinated examinations and inspections may not be practical in all cases because of resource constraints, serious scheduling conflicts, or geographic considerations; however, particular emphasis will be placed on coordinating examinations and inspections of banking organizations with over $10 billion in consolidated assets and those banking organizations (generally, with assets in excess of $1 billion) that exhibit financial weaknesses.

5000.0.8.3.3 Coordinating the Planning, Timing, and Scope of Examinations and Inspections

When multiple regulators have authority over a legal entity, representatives from the appropriate supervisory offices should, if necessary, meet quarterly to discuss supervisory strategies for specific banking organizations. They should meet at least annually to review and establish examination and inspection schedules, to plan for the next year, and to consider the need for coordination in the following areas:

1. sharing the strategy and scope of each examination or inspection
2. determining if agencies other than the primary regulator of a particular entity should participate in the examination or inspection of that entity
3. determining whether a consolidated request letter should be prepared to avoid duplicative information requests
4. sharing workpapers and resultant findings and conclusions from prior examinations and inspections
5. other areas as necessary

5000.0.8.3.4 Interagency Review of Bank, Nonbank, and Parent Company Activities

Certain functions and procedures—such as internal audit, credit review, and the procedures for determining the allowance for loan and lease losses—transcend the boundaries that distinguish legal entities. Such functions and procedures may be located at the bank or holding company level. The primary regulator of the depository institution and the holding company both may have supervisory responsibility to assess such functions. In these cases, coordinated and concurrent examinations or inspections should be conducted to avoid duplicative reviews and unnecessary disruption.

The primary regulator of the entity being examined or inspected should take the lead in a coordinated examination or inspection, unless there is an agreement that another agency will serve as the lead agency. The responsibilities of the lead agency, in consultation with other appropriate agencies, include developing the scope of the examination or inspection and determining the staff requirements. The lead agency will also coordinate scheduling of the examination or inspection and presentation of examination or inspection findings to the appropriate management.

5000.0.8.3.5 Joint Meetings between Regulators and Bank or BHC Management

At the conclusion of examinations and inspections conducted under the guidelines, the agencies should coordinate and plan joint meetings with the board of directors to discuss the findings and conclusions. The agencies will coordinate responsibility as outlined in the guidelines.

5000.0.8.3.6 Significant Differences in Agencies' Findings, Conclusions, and Recommendations

Before examination and inspection results are forwarded to management or boards of directors, every effort should be made to resolve any significant differences in major findings, conclusions, and recommendations. These differences should be resolved by examiners, or officials at the regional level, within 10 business days of identification. If the regional offices cannot resolve the matter, it should be referred to the national level, where it will be resolved within a reasonable time frame.

5000.0.8.3.7 Inspection and Examination Reports

The primary regulator should prepare the formal report of examination or inspection covering the entity for which it is the primary federal regulator and in those cases for which it serves as the lead agency. The report should be addressed and transmitted to the directors of the entity for which the regulator is the primary federal supervisory authority. The report may also be sent to the directors of other entities that have a need for the information. The agencies may agree, if necessary and appropriate, to prepare a joint report.

5000.0.8.3.8 Coordinating Information Requests

Any request for information to be obtained from an entity for supervisory purposes should nominally be made through the entity's primary regulator. The primary regulator should also share relevant supervisory information with the other appropriate regulatory agencies.

5000.0.8.3.9 Coordinating Enforcement Actions

When one or more regulatory agencies is contemplating an enforcement action, the agencies should consider initiating a joint enforcement action to address and correct deficiencies within a banking organization. At a *minimum*, each agency considering enforcement action should inform the other agencies. This provision reaffirms the existing interagency enforcement agreement.

5000.0.8.3.10 State Banking Departments

The agencies will endeavor to coordinate with state banking departments, when appropriate and feasible.

5000.0.9 POLICY FOR COMMUNICATING PROBLEMS OF SUPERVISORY CONCERN TO MANAGEMENT AND BOARDS OF DIRECTORS

5000.0.9.1 Introduction

On October 7, 1985, the Board announced a second policy to strengthen and formalize practices for communicating the findings of examinations/inspections to management and boards of directors and to set out guidelines for such meetings. The policy—

1. establishes specific criteria for determining which examination findings require follow-up meetings with boards of directors and sets out guidelines for such meetings;
2. requires that, in addition to providing a complete examination or inspection report to the bank or bank holding company, a written summary of findings be sent to the bank or bank holding company for distribution to each director; and
3. requires that senior Reserve Bank officials become more involved in presenting examination findings to boards of directors.

The policy was effective immediately, with initial implementation expected on January 1, 1986.

5000.0.9.2 Meetings with Directors

The decision to hold a meeting with the board of directors at the conclusion of a state member bank examination or a bank holding company inspection is to be determined on the basis of the organization's financial condition, its size, the type of examination/inspection conducted, and other factors which, in the judgment of the Reserve Bank, indicate the need for such a meeting. To the extent possible, meetings with the board of directors of state member banks should include representatives of the state banking department. Where appropriate, meetings with the boards of bank holding companies may be held jointly with the meeting of the lead bank subsidiary's board of directors and the bank's primary federal or state bank supervisor.

5000.0.9.2.1 Criteria for Conducting Meetings

5000.0.9.2.1.1 Condition

A meeting with the board of directors is to be held at the conclusion of any full-scope inspection in which a bank holding company is rated BOPEC composite 4 or 5. SR-95-19 stipulates, however, that a meeting with the board of directors need not be held after an inspection that results in a BOPEC composite rating of 3, 4, or 5 for a shell BHC with less than $500 million in assets if all of the following conditions are met:

1. A meeting was held when the BHC was first downgraded to a BOPEC composite rating of 3, 4, or 5.
2. The examination of subsidiary banks revealed no significant deterioration since the prior meeting.
3. No significant violations were revealed by the inspection of the BHC.
4. The BHC is in compliance with any informal or formal enforcement actions.

Except for the above, meetings are also required if an organization is rated composite 3 and its condition appears to be deteriorating or has shown little improvement since the previous examination/inspection in which it received a composite 3 rating.[6] A meeting should also be held with all these organizations following a limited-scope or targeted examination/inspection, if deemed appropriate and desirable by the Reserve Bank.

5000.0.9.2.1.2 Size

A meeting will be required at the conclusion of a full-scope examination/inspection of all multinational organizations and major regional organizations with assets in excess of $5 billion. Reserve Banks also are encouraged to conduct such meetings at the conclusion of a full-scope examination/inspection of regional institutions with assets in excess of $1 billion.

5000.0.9.2.1.3 Guidelines for Meetings

It is understood that meetings with boards of directors will have to be tailored to meet the needs of each specific situation. In general, meetings with the full board are to be preferred, but in certain cases the Reserve Bank may determine that a meeting with a committee of the board of directors, such as executive or audit committees, will serve adequately. In all cases, however, the written summary of examination/inspection findings is to be provided to each member of an organization's board of directors.

For bank holding companies with consolidated assets of $500 million or more, the Reserve Bank's presentation to the board should ordinarily be chaired by a Reserve Bank official, with the examination staff in attendance. The larger the organization or more serious its problem, the more senior should be the Federal Reserve official.

Reserve Bank presidents are expected to become directly involved in the supervision of multinational organizations and regional institutions with over $5 billion in assets that have been rated composite 3, 4, or 5. Reserve Banks have the discretion to determine the circumstances under which the participation of Reserve Bank presidents is appropriate and necessary. It may be necessary for the Reserve Bank president to meet with the board of directors and become involved in other ways, the precise nature of involvement to depend on the situation.

A meeting with the board of directors should include a formal, structured presentation con-

6. Reserve Banks also are encouraged to hold a meeting at the conclusion of a full-scope examination/inspection of an organization with assets greater than $500 million rated composite 2 if its condition appears to be deteriorating, and those rated composite 3 even if showing some improvement.

taining a clear statement that an institution is considered a ‘‘problem’’ institution[7] or about to become a problem institution if existing conditions deteriorate. Use of slides, other visual aids, and hard-copy handouts is encouraged. Information should also be presented on financial trends and peer-group comparisons. The presentation should make clear the nature of problems uncovered, such as—

1. deficiencies in capital, asset quality, earnings, or liquidity;
2. violations of law;
3. inadequacies in policies, practices, and reporting systems necessary for the proper administration of the organization;
4. lack of well-documented lending, collection, investment, and liability-management policies;
5. failure of management in addressing previously discussed deficiencies;
6. lack of reporting systems sufficient to keep senior management and the board of directors fully informed; and
7. failure of the board of directors to participate in the active management of the organization.

For bank holding companies with consolidated assets of less than $500 million, the Reserve Banks, effective March 30, 1995 (SR-95-19), were provided the discretion to have senior supervision/examination staff represent the Reserve Bank in meetings with the directors of banks and bank holding companies. Conference calls with directors may be made in place of on-site meetings for these BHCs when considered appropriate and if an on-site meeting was held following the previous inspection.

5000.0.9.3 Summary of BHC Inspection Findings

The Federal Reserve Banks will provide special written reports summarizing the results of the inspection findings to bank holding companies in the following situations:

1. An organization is rated composite BOPEC 3, 4, or 5 (except for organizations rated BOPEC 3 or 4 in cases in which a written summary report was provided on a preceding inspection, the organization has been taking actions to comply fully with the provisions of that report, and, in the examiner’s judgment, no good purpose would be served by issuing another summary report).
2. An organization is rated composite 1 or 2 but is showing signs of a significant deterioration in condition or an apparent violation of law.

Examiners in these and other cases may decide to issue summaries to board members when the summaries will prove constructive in resolving potential or actual problems.

The page prepared for the inspection report entitled Examiner’s Comments and Matters Requiring Special Board Attention may serve as the full text of the summary report to directors and should be written with that purpose in mind. The discussion on the page (and thus in the summary report) should focus on identified problems of the organization rather than its strengths. Problems should be presented in a succinct and unmistakably clear manner. The types of actions to be taken by the directors and management to address these problems should be specifically noted. Institutions rated 4 or 5 are to be told they are ‘‘problem’’ institutions that warrant ‘‘special supervisory attention.’’ Institutions rated 3 are to be informed that their condition is not satisfactory, that they are subject to more than normal supervision, and that they may become ‘‘problems’’ if their weaknesses are not addressed adequately.

The summary report will be sent directly to the banking organization’s management for their distribution to each director. The transmittal letter to the banking organization is to state that the report is a summary of identified problems and contemplated supervisory actions and to request that management distribute the report to each director. The letter is to state further that each director should read the report, sign the introductory statement attesting to having read the report, and return the report to management. Management is to keep on file copies of the statements signed by the directors but is to destroy all but a file copy of the summaries themselves.

In order to provide the directors with prior notice of the deficiencies to be discussed, the directors’ summary report is to be completed and distributed before any Reserve Bank meeting with the board of directors. Reserve Banks should also make every effort to distribute the complete examination/inspection report to management before meeting with directors.

7. As has been long-standing Federal Reserve practice, the exact numeric rating assigned in the examination/inspection is not to be disclosed.

5000.0.10 SUMMARY TO DIRECTORS OF INSPECTION FINDINGS

SUMMARY TO DIRECTORS OF INSPECTION FINDINGS

Prepared by the
Federal Reserve Bank

For the Board of Directors of

Inspection Conducted As of

This summary is the property of the Board of Governors of the Federal Reserve System and is furnished to members of the board of directors of the bank holding company inspected for their confidential use. The report is strictly privileged and confidential under applicable law, and the Board of Governors has forbidden its disclosure in any manner without its permission. Under no circumstances should the holding company, or any of its directors, officers, or employees disclose or make public in any manner the report or any portion thereof. In reviewing this summary, it should be kept in mind that an inspection is not the same as an audit report.

THIS SUMMARY SHOULD BE HELD IN STRICTEST CONFIDENCE

5000.0.10 SUMMARY TO DIRECTORS OF INSPECTION FINDINGS—Continued

Summary Signature Page

The attached summary of an inspection of ______________________________ completed on _________________________________, has been prepared to assist members of the board of directors of the bank holding company in fulfilling their fiduciary responsibilities. As a member of the board you are urged to review this summary and the inspection report as soon as possible.

As an elected member of the holding company's board of directors, you have a duty to ensure that the organization is operated in a safe and sound manner. You may be held liable for losses caused by your failure to supervise properly the affairs of the holding company. It is suggested that you review one or more of the publications that explain the functional and legal responsibilities of a director.

Congress has placed great emphasis on the role of holding company directors and officers by passing legislation allowing regulatory authorities to use ''cease and desist'' actions against individuals, to assess civil money penalties, and even to remove an officer or director demonstrating willful or continuing disregard for safety and soundness considerations.

This summary is the property of the Board of Governors of the Federal Reserve System and is furnished to members of the board of directors of the bank holding company inspected for their confidential use. The report is strictly privileged and confidential under applicable law, and the Board of Governors has forbidden its disclosure in any manner without its permission. Under no circumstances should the holding company, or any of its directors, officers, or employees disclose or make public in any manner the report or any portion thereof. In reviewing this summary, it should be kept in mind that an inspection is not the same as an audit report. After reviewing this summary, please sign below and return this entire document to the bank holding company.

I have received and read the attached summary of the inspection of _________________________ by the Federal Reserve Bank of _______________ conducted as of ___________________________.

____
S/director

____
Date

5000.0.10 SUMMARY TO DIRECTORS OF INSPECTION FINDINGS—Continued

Summary of Inspection Findings

5000.0.11 COMPLETION STANDARD FOR INSPECTION REPORTS

Inspection reports issued by the Federal Reserve must be completed and mailed within 60 calendar days, beginning with the day following the examiner's exit meeting. This standard applies to all inspections, regardless of the complexity of the bank holding company. For bank holding companies rated 3, 4, or 5, Reserve Banks are encouraged to follow an internal target of 45 calendar days for processing and mailing reports. In those cases where reports are issued jointly with other state banking agencies, this standard may be extended at the discretion of the senior management at the Reserve Bank. (See SR-93-4.)

5000.0.12 COMBINED EXAMINATION/INSPECTION REPORT FOR BANK HOLDING COMPANIES WITH LEAD STATE MEMBER BANKS

Reserve Banks are permitted, under the circumstances and procedures specified in SR-94-46, to issue a combined report for a bank holding company and its lead state member bank subsidiary. A letter should be sent to the qualified holding companies that explains their option of receiving a combined report. The combined report may be issued when—

1. a bank holding company's lead bank subsidiary is a state member bank;[8] and
2. the holding company's board of directors formally approves, by board resolution, a combined report being released to its lead state member bank subsidiary.

A combined examination/inspection report format is attached to SR-94-46. At a minimum, a combined report will contain all examination report pages required by the interagency bank examination report instructions, as well as information on the parent holding company, its bank and nonbank subsidiaries, and the consolidated bank holding company organization. For detailed information on required and optional report pages, refer to section 6000 of the *Commercial Bank Examination Manual* and sections 5010.0 to 5010.43 of this manual.

Separate examination and inspection Supervisory Information System (SIS) entries are required for each combined report. The combined report's cover page is to be green, must provide BHC and Bank RSSD[9] numbers, and must clearly indicate that the report is a combined report.

8. In cases where the company has more than one state member bank, separate examination reports should be prepared for all other state member bank subsidiaries.

9. Research, Statistics, Supervision and Regulation, and Discount and Credit (RSSD)

Manual Section No.	Report Page No.	Report Page Title
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5010.3	i.	Table of Contents
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5010.23		Commercial Paper/Lines of Credit (including questions)
5010.24		Contingent Liabilities and Schedule of Balance-Sheet Accounts Not Detailed Elsewhere (Parent)
5010.25		Statement of Changes in Stockholder's Equity
5010.26		Income from Subsidiaries (Fiscal and Interim)
5010.27		Cash Flow Statement (Parent) (including questions)[1]
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5010.33		Fidelity and Other Indemnity Insurance
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5010.36		Extensions of Credit to Bank Holding Company Officials and Their Related Interests and Investments in and Loans on Stock or Obligations of Their Related Interests
5010.37		Interest Rate Sensitivity—Assets and Liabilities
5010.38		Treasury Activities/Capital Markets
5010.40	A	Principal Officers and Directors
5010.41	B	Condition of the Bank Holding Company
5010.42	C	Liquidity and Debt Information
5010.43	D	Administrative and Other Matters

1. This page is required to be included in the inspection report for bank holding companies with consolidated assets in excess of $1 billion or those companies that have substantive fixed charges or debt outstanding, as well as selected others at the option of the Reserve Bank.

Manual Section No.	*Report Page No.*	*Report Page Title*
FR 1241:		
5010.13		Capital Structure (lead bank subsidiary)
5020.1		Bank Subsidiary
5020.2		Other Supervisory Issues

This ''full-scope'' report is designed to be used as a minimum standard in reporting the results of a bank holding company inspection. The report to be provided to the bank holding company consists of a Core Section and an Appendix Section, the latter consisting of certain required financial statements. Supporting schedules are added to the Core or Appendix Sections when an area of concern or problem is addressed. Such schedules provide detailed information relevant to a particular activity area.

The Core Section contains a table of contents, a summary of the scope of the inspection, and a page that presents the examiner's comments and discusses matters requiring special Board attention. Also, the Core Section should contain an analysis of financial factors, including an assessment of the quality of assets and a complete analysis of the BOPEC components. Specifically, the Core Section is made up of the pages described in the following subsections.

5010.1.1 CORE SECTION

The inspection report format contains the following pages in the Core Section:

Page No.	*Page Title*
	Standard Report Cover
i.	Table of Contents
1.	Examiner's Comments and Matters Requiring Special Board Attention
2.	Scope of Inspection and Abbreviations
3.	Analysis of Financial Factors
4.	Audit Program

5010.1.2 APPENDIX SECTION

The Appendix Section will consist of a mandatory section that presents the following financial statements for the organization:

- Parent Company Comparative Balance Sheet
- Parent Company Comparative Statement of Income and Expenses
- Consolidated Comparative Balance Sheet
- Consolidated Comparative Statement of Income and Expenses

Bank holding company inspections should be conducted as of the latest fiscal quarter. All financial statements should be presented as of the most recent calendar quarter. The dollar amounts are reported in thousands.

Financial statements prepared by the bank holding company may be used to meet these requirements provided they are prepared in accordance with generally accepted accounting principles and are, in the examiner's judgment, suitably detailed, clear, and accurate. Any adjustments to any financial statements made by the examiner should be footnoted. Any other supporting schedules or visual aids (for example, graphs or charts) can be included in the Core Section to communicate and/or support the examiner's findings. Percentages should be rounded to the nearest tenth of 1 percent, unless finer detail is necessary.

5010.1.3 OPTIONAL PAGES TO BE INCLUDED IN THE CORE OR APPENDIX SECTIONS

Supporting Report Pages for All Inspections

The listed optional report pages are to provide support[1] to the Core or Appendix Section of the report. They will normally be sequenced as listed below. If a problem area is cited within the Core Section, the respective typed supporting report pages need to be included to support the critical comments. The optional pages listed in this section are to be included by the examiner in the report when they convey significant

1. Supporting report pages refers to information gathered in essentially the same format as when the page is being prepared by the examiner for inclusion in the report. However, certain information may not provide sufficient value to address an area of concern in the report, but should be retained in workpaper form to provide evidential matter for the inspection report. For example, the Statement of Changes in Stockholders' Equity may be summarized in an audit report or may be included with the company's audited annual financial statements. The examiner reviews the statement and concludes that the information is reliable and complete and that it agrees with the respective balances reported in the inspection report. A photocopy of the information could be used to provide evidence of the examiner's review, including any related notes.

findings in the Core Section or when they support the discussion in the Core Section with an Appendix page. If appropriate standardized report pages do not exist to address a particular area of concern, the relevant analytical support can be included on the ''Other Matters'' page as part of the inspection report. Any or all supporting report pages and workpapers should be available to be forwarded immediately to Board staff, if requested.

The designated supporting report pages are—

- Policies and Supervision
- Summary of Consolidated-Classified and Special-Mention Assets, and Other Transfer Risk Problems
- Consolidated Capital Structure
- Capital Structure (lead bank subsidiary)
- Treasury Activities/Capital Markets
- Violations
- Other Matters
- Classified Assets and Capital Ratios of Subsidiary Banks[2]
- Organization Chart
- History and Structure
- Investment in and Advances to Subsidiaries
- Commercial Paper (Parent)
- Lines of Credit (Parent)
- Commercial Paper/Lines of Credit (Parent) (including questions)
- Contingent Liabilities and Schedule of Balance-Sheet Accounts Not Detailed Elsewhere (Parent)
- Statement of Changes in Stockholders' Equity
- Income from Subsidiaries (Fiscal and Interim)
- Cash Flow Statement (Parent) (including questions)[3]
- Parent Company Liquidity Position
- Parent Company and Nonbank Assets Subject to Classification
- Bank Subsidiaries
- Nonbank Subsidiaries
- Nonbank Subsidiary Financial Statements
- Fidelity and Other Indemnity Insurance
- Other Supervisory Issues
- Extensions of Credit to Bank Holding Company Officials and Their Related Interests and Investments in and Loans on Stock or Obligations of Their Related Interests
- Interest Rate Sensitivity—Assets and Liabilities

In addition to the FR 1225 report pages, a few replacement report pages are designated as FR 1241 pages. The following pages are designed and are to be used for smaller bank holding companies having less than $150 million in assets:

- Capital Structure (lead bank subsidiary)
- Bank Subsidiary
- Other Supervisory Issues

5010.1.4 CONFIDENTIAL SECTION FOR ALL INSPECTION REPORTS

The confidential section for bank holding company inspection reports is reserved for confidential comments that will be limited to staff of the Federal Reserve System. The Confidential Section of the inspection report will consist of the following pages:

Page	*Page Title*
A.	Principal Officers and Directors
B.	Condition of the Bank Holding Company
C.	Liquidity and Debt Information
D.	Administrative and Other Matters

Discussion presented in the confidential section should be kept to a minimum. As much information as possible should be incorporated in other sections of the report that are available to the bank holding company. The complete analysis of the holding company organization (that is, BOPEC components) is to appear in the front of the report on the ''Analysis of Financial Factors'' page. The information reported on these confidential pages should be printed on yellow paper.

5010.1.5 GENERAL COMMENTS FOR ALL REPORT PAGES

The specified format of the report pages should be used whenever possible, but when flexibility is necessary, additions and limited deletions can be made. Examiners are required to include in the Core Section only a relatively small number

2. Included if assets are classified and/or written up as required.

3. This page is required to be included in the inspection report for bank holding companies with consolidated assets in excess of $1 billion or those companies that have substantive fixed charges or debt outstanding, as well as select other organizations at the option of the Reserve Bank.

of report pages and, in the Appendix Section, only financial statements for the organization. These pages will normally be sequenced as listed previously. At the same time, examiners have the discretion to decide whether to include other standard pages in a report and whether to include them in the Core or the Appendix Sections. This choice should be made on the basis of whether the content of the page will highlight a significant inspection finding (in which case, the finding should be included in the Core Section) or whether the content will provide support for comments offered in the Core Section (in which case, the finding should ordinarily be placed in the Appendix Section).[4] Given the discretion being accorded examiners to tailor reports to accurately convey inspection findings, reports prepared for large and small companies alike should be prepared to achieve that objective.

Another important objective is to avoid excessive length in the report, particularly in the open section, that can result from including comments that may provide directors and management with information of marginal importance or from repeating findings and conclusions on different pages of the report.[5] In addition, reports should be understandable and readable. A further objective is for examiners to determine precisely what should be conveyed in their reports to boards of directors and management and then to present that information in clear and concise language.

All reports are to be on 8½- by 11-inch paper, bound on the left margin. Responses to questions should be provided below the last question in the section or, if necessary, on an additional page. Do not repeat the question in the response. Indicate the question number in the response.

All credit-extending nonbank subsidiaries will be subject to asset classification. The examiner should recommend that management maintain a loan-loss reserve that is adequate to offset 100 percent of assets classified loss and still have a balance sufficient to absorb normal unidentified, unanticipated, future losses from operations. The examiner and BHC management should consider the guidance provided in section 2065.2 on the determination of an adequate level for the Allowance for Loan and Lease Losses. Examiners should also review the organization's loan-loss history to determine trends and to help evaluate the adequacy of the existing reserve.

4. If a problem area is cited within the Core Section, inclusion of the listed, typed, supporting report pages will be necessary to support the critical comments.

5. While brevity is an important goal, examiners should note that, when an enforcement action is contemplated, the inspection report must fully support the proposed provisions of the enforcement document.

The official name, location, and the RSSD ID number of the bank holding company being inspected is to be provided. Also provide the dates the inspection commenced and concluded as well as the inspection date. The cover includes a notice that its content is strictly confidential.

The cover must include the official seal of the Board of Governors of the Federal Reserve System. It may also include the names and seals of the Reserve Bank and the state bank supervisory agency that participated in the inspection as part of a cooperative inspection agreement.

FR 1225–Cover
(Revised 7/94)

REPORT OF BANK HOLDING COMPANY INSPECTION

Name: ____________________ Inspection Commenced: ____________________

Location: ____________________ Inspection Concluded: ____________________

RSSD ID Number: ____________________ Inspection Date: ____________________

THIS REPORT OF INSPECTION IS STRICTLY CONFIDENTIAL

This report has been prepared by an examiner selected or approved by the Board of Governors of the Federal Reserve System. The report is the property of the Board of Governors and is furnished to directors and management for their confidential use. The report is strictly privileged and confidential under applicable law, and the Board of Governors has forbidden its disclosure in any manner without its permission, except in limited circumstances specified in the law (12 USC 1817(a) and 1831m) and in the regulations of the Board of Governors (12 CFR 261.11). Under no circumstances should the directors, officers, employees, trustees or independent auditors disclose or make public this report or any portion thereof except in accordance with applicable law and the regulations of the Board of Governors. Any unauthorized disclosure of the report may subject the person or persons disclosing or receiving such information to the penalties of Section 641 of the U.S. Criminal Code (18 USC 641). Each director or trustee, in keeping with his or her responsibilities, should become fully informed regarding the contents of this report. In making this review, it should be noted that this report is not an audit, and should not be considered as such.

FEDERAL RESERVE BANK OF

The table of contents indicates the report pages included in the report and the sequential numbering of pages within the report. All prenumbered Core Section inspection report pages are included in each table of contents along with any other supporting report pages. Supporting report pages will be numbered sequentially in FR 1225, starting with page number ''11''.

If included, individual subsidiaries may be listed with their respective page numbers, or they may be grouped such as ''Nonbank Subsidiaries'' with a page reference such as ''26–26c'' to indicate the number of such subsidiaries. At the bottom of the page, insert the commencement date of the previous inspection followed by the date of the financial statements in parentheses.

The report page is to include a summary of the examiner's findings relating to—

- violations,
- criticisms,
- special comments,
- matters requiring special board attention, and
- recommendations.

In addition, it will also include the BOPEC financial composite rating (see SR-88-37 and section 4070.0.9). Beginning in January 1997, component ratings for the current inspection and the two prior inspections will be reported at the top of the page as illustrated below (see SR-96-26). Component ratings should only be detailed if the date of the inspection is after January 1, 1997.

BOPEC Rating System

Inspection Date:	*Current Inspection 09-03-X7*	*Prior Inspection 10-19-X6*	*Prior Inspection 8-22-X5*
Composite rating:	2	2	2
Component ratings:			
Banks	2		
Other (nonbank subsidiaries)	2		
Parent company	2		
Earnings	2		
Capital adequacy	2		
Management	S		

This listing should be followed by the uniform definition of the assigned composite rating. The uniform definitions of the component ratings assigned need not be included in reports; however, they should be made available to management and directors upon request.

When a combined examination/inspection report format is used, similar matrices for each composite and component rating assigned should be included in the report.

Numeric and alphabetic component ratings should also be included on the pages of reports that discuss findings related to the components.

The purpose of this report page is to communicate to the holding company's board of directors and its management the examiner's views on the overall condition of the company, significant problems that have been identified in the inspection, and actions the company's board of directors and management need to take to correct the company's problems and strengthen its condition. The comments should summarize only material concerns, criticisms, analyses, or violations, referring the reader to an appropriate optional report page for additional detail. The use of subcaptions to identify and separate the areas subject to comment is encouraged.

The comments are generally written on an exception basis. Avoid laudatory comments. The examiner may, however, comment on improvements initiated by management.

Items suitable for discussion within the Examiner's Comments and Matters Requiring Special Board Attention report page include, but are not limited to—

- policies and supervision of subsidiaries,
- earnings,
- cash flow or liquidity,
- level of classified assets,
- adequacy of capital,
- borrowings,
- condition of subsidiaries,
- violations of the Bank Holding Company Act and Regulation Y,
- violations of section 23A and/or section 23B of the Federal Reserve Act and other statutes,
- fees and dividends being paid to the parent by subsidiaries,
- audit function, and
- information that is to serve as an alternative to issuing a separate Summary to Directors of Inspection Findings.

Any substantive recommendations contained elsewhere in the inspection report should be presented briefly in the core page entitled "Examiner's Comments and Matters Requiring Special Board Attention." A summary comment relative to the adequacy of the BHC's oversight of its subsidiaries may be provided. Any comments that refer specifically or indirectly to details presented elsewhere in the report should be consistent with that information. Each inspection report page entitled Examiner's Comments and Matters Requiring Special Board Attention will be written to accomplish these objectives: give an overall assessment of the condition of the company, discuss significant problems, and specify needed corrective action. In cases of composite ratings of 3, 4, and 5, the text of this page will also be used for the summary report. The signature of the examiner-in-charge should appear below the comments.

The scope of the inspection describes generally the coverage parameters of the inspection. When determining the scope of the inspection, the examiner must consider the Board's policy statement on the examination and inspection of state member banks and bank holding companies (October 7, 1985, S-2493). See sections 5000.0.7 to 5000.0.9.

The scope generally includes a presentation of the following:

- the purpose for the inspection
- which subsidiaries were inspected on-site and which were done from the parent's location
- the depth of inspection coverage[1]
- an identification of the peer group(s) and the bank holding companies used for comparison with the bank holding company being inspected
- the source of information regarding the administration of policies and the supervision over subsidiaries
- comments as to the extent examiners relied on internal classification systems or classifications of other bank regulatory agencies
- the senior officers with whom the overall inspection findings were discussed
- the sources upon which the examiner based his conclusions and/or recommendations

The opening paragraph of the scope should include authority under which the inspection was conducted (section 5(c) of the Bank Holding Company Act of 1956, as amended), and may include the dates the inspection commenced and closed, and the date(s) of financial statements used as the basis for the inspection.

In brief paragraphs, the examiner should also indicate what minute books were read, which nonbank subsidiaries were examined, what size loans were reviewed in credit-extending subsidiaries, with whom corporate policies were discussed, and to what extent banking subsidiaries were reviewed.

The report page will also include explanations of abbreviations used in the report. Generally, abbreviations familiar to the BHC should be used. However, efforts should be made to incorporate at least a part of the name into the abbreviation as opposed to relying strictly on initials which tend to become confusing. Also, it is desirable that abbreviations of bank subsidiaries include the word ‘‘bank’’ to distinguish them from the parent company and/or nonbank subsidiaries with similar names.

1. This includes a statement as to the percentage of loans reviewed in each credit-extending nonbank subsidiary, without consideration to statistical sampling or any form of extrapolation. The ratio will include loans actually reviewed by Federal Reserve examiners divided by total loans in each nonbank subsidiary. When different categories of loans are housed in a nonbank subsidiary, it may be relevant to provide a breakdown by percentage of loans reviewed for each category of loans, further segregated by current and delinquent categories. See SR-90-26.

The Analysis of Financial Factors presents a complete financial analysis of the components (nonconfidential BOPEC comments) of the holding company—parent, bank subsidiaries, nonbank subsidiaries, and consolidated (as applicable)—supported and followed by parent and consolidated financial statements, consolidated asset quality, and consolidated capital ratios. See section 4000 for specific information on analyzing financial factors.

The analysis is to serve the informational needs of senior management of the holding company and the supervisory authorities by presenting both positive and negative factors affecting the condition of the major components and the consolidated company. Such analysis helps identify problems or potential problems and measures the holding company's ability to be a source of financial strength to its subsidiaries. This analysis is considered one of the most important parts of the report.

The information is available from discussions with management, financial statement data within the report, published statements such as the SEC Form 10-K, and unpublished information sometimes available through the offices of the officer in charge of finance, the treasurer, or the comptroller.

5010.6.1 PARENT COMPANY

For the parent company, present an analysis of each of the financial factors in narrative form. Tables may be used to support the narrative analysis.

The analysis of the parent should include a discussion of the following: debt structure (with indications of how debt proceeds are used), debt/equity ratios (with comparisons to previous years), sufficiency of cash flow, sources and stability of income, interest coverage, dividend-payout ratios, classifications of parent company assets, changes in dividend policy, comparisons to peer group, and a conclusion about whether the holding company is considered to be a source of financial strength to its subsidiaries.

Within the analysis of the parent, the examiner should also include comments regarding whether dividend payments to stockholders have been reasonable, considering the parent's leveraged position, debt servicing, cash flow, and capital needs. The examiner should describe how dividend policy is formulated and what the policy is. See the Board's policy on cash dividend payments in section 2020.5.1.

Dividends paid by subsidiaries, both bank and nonbank, to the parent company are the means by which a cash return is realized on the investment in subsidiaries, thus enabling the parent to pay dividends to its shareholders and to meet its debt-service requirements and other obligations. The examiner will need to conclude and discuss in the report whether dividend assessments of any subsidiary are excessive. The examiner can draw conclusions about excessive dividends based on discussions with management concerning dividend policies and information that may be contained in the report, such as—

1. peer-group averages,
2. the condition and capitalization of each subsidiary,
3. the type of subsidiary (credit-extending subsidiaries need more capitalization than service subsidiaries),
4. the bank holding company's reasons for extracting proportionately more or less from each subsidiary,
5. past policy and payments, and
6. compliance with regulatory policy and guidelines.

5010.6.2 BANK SUBSIDIARIES

A summary write-up should be prepared for each bank subsidiary comprising 10 or more percent of the bank holding company's consolidated assets and/or bank subsidiaries evidencing material financial deficiencies or other characteristics that should be brought to the attention of the bank holding company's board of directors.[1] These write-ups should summarize noteworthy examiner comments from the open section of the latest reports of examination of the subsidiary bank(s) and comment on any actions taken to correct significant weaknesses or violations. The summary should also include an analysis of the level and trend of earnings and classified assets, and the adequacy of capital (for example, Tier 1, total capital, and leverage ratios).

1. In determining the subsidiary banks that require write-ups, examiners should be mindful of the effect that the cross guarantee provisions of FIRREA can have on nontroubled bank subsidiaries.

For the other bank subsidiaries, the examiner should provide an overall summary: the number of subsidiaries by composite rating, an overall analysis of the level and trend of earnings, classified assets, capital (that is, capital adequacy), and any other financial analysis indicators.

5010.6.3 NONBANK SUBSIDIARIES

The examiner should present an analysis of the condition and an analysis of the risk assessment of nonbank subsidiaries. The analyses presented within this report page should support the nonbank component of BOPEC without causing the reader to refer to other report pages.

Because of the number of nonbank subsidiaries of a bank holding company, it may not be possible or reasonable to discuss the condition and risk assessment of each subsidiary in this section of the inspection report. The analysis presented on this page should, therefore, be based on the combined performance of the nonbanking activities. However, if the company has significant or troubled credit-extending nonbank subsidiaries, individual analyses of each of these subsidiaries should be included.

The analysis of nonbank subsidiaries should include information on the nonbank's financial condition, including the level, trend, and quality of earnings; composition of the loan portfolio; level and trend of classified, past-due, and nonperforming assets; and the adequacy of the loan-loss reserve, capital, financial management of debt-to-equity ratios, and funds management. The combined risk assessment should address the funding risk, earnings exposure, operational risks, asset quality, capital adequacy, contingent liabilities and other off-balance-sheet exposures, management information systems and controls, transactions with affiliates, growth in assets, and the quality of oversight provided by the management of the bank holding company and nonbank subsidiary (see SR-93-19). Conclude with a general statement on the condition and overall risk assessment of the nonbank subsidiaries.

5010.6.4 CONSOLIDATED

Present an analysis of the consolidated balance sheet, including levels and trends of debt, the adequacy of capital (Tier 1, total capital, and leverage ratios), growth in loans, assets and liabilities, and peer-group comparisons. Also present an analysis of the consolidated earnings trends, asset quality, and the adequacy of valuation reserves. Such analysis should include comments on performance results based on net interest margins, return on average assets, return on average equity, factors influencing earnings, and peer-group comparisons. Include a statement on the condition of the company, including its reliance on interest-sensitive funds and its ability to borrow additional short- or long-term funds or to issue new capital stock.

5010.6.5 GENERAL INSTRUCTIONS

The examiner should make certain that—

1. the figures and comments related to the parent are consistent with the various parent-company financial statements;
2. the analysis of bank subsidiaries is consistent with data included on the ‘‘Bank Subsidiaries’’ and the ‘‘Classified Assets and Capital Ratios of Subsidiary Banks’’ pages;
3. the analysis of nonbank subsidiaries is consistent with data on the ‘‘Nonbank Subsidiary,’’ ‘‘Nonbank Subsidiary Financial Statements,’’ and ‘‘Nonbank Company Assets Subject to Classification’’ report pages;
4. the consolidated analysis is consistent with information presented throughout the report, primarily with the consolidated financial statements and the unaffiliated borrowings on the ‘‘Liquidity and Debt Information’’ confidential page ‘‘C’’;
5. all names are the same as those on the ‘‘Scope and Abbreviations’’ Core page 2, the ‘‘Organization Chart’’ page, and other report pages and tables within the report; and
6. all debt figures agree with the unaffiliated borrowings of the ‘‘Liquidity and Debt Information’’ confidential page ‘‘C.’’

This page presents the adequacy of the internal audit program, the effectiveness and quality of the overall audit program, and the BHC's relationship with its external auditor. See section 2060.1 for related information.

The examiner's review of the BHC's internal audit program will establish whether the program is adequate to effectively audit the BHC's operations regularly. It will also help determine whether the audit function provides the directors with sufficient information on the corporation's conditions and operations. The review will allow the examiner to determine the external auditor's role and relationship with the internal auditor.

The information on the audit program is available from the auditor, audit committee, the audit staff, and the internal audit reports. Information on the external auditor should be available from the management letter, the internal auditor, and the audit committee minutes.

Comments on the internal audit program may include an appraisal of the effectiveness of the program at meeting the frequency guidelines for auditing subsidiaries, information on the recipients of audit reports, and the party to whom the auditor is responsible. The examiner's comments on the external auditor may include the name of the firm, the scope of the audit, the degree of interface with the internal auditors, any ''qualified opinion'' submitted by the independent auditors in certifying the most recent years' financial statements, and any pertinent comments regarding relations with the directors' audit committee. The comments should conclude with an appraisal of the quality and effectiveness of the overall audit program.

The following is a list of suggested questions for the internal auditor in developing comments for this section:

5010.7.1 INTERNAL AUDITOR

1. How is the audit staff organized? To whom do they report?
2. What are the educational backgrounds and experience of the staff?
3. What is the size of the staff and the length of time that most of the staff have been in audit? Is the staff large enough to meet the functional requirements of the job under the guidance and leadership of the auditor? Is the department used as a training ground for other departments?
4. What is the schedule for the audit of banking and nonbanking subsidiaries and for particular departments therein?
5. Are copies of audit programs and reports available for the Federal Reserve's review?
6. Are audit programs coordinated with and workpapers reviewed by outside accountants?
7. Are qualified EDP auditors on the staff?

Although more information is obtained through interviews with the auditor, as opposed to receiving responses to written questions, these questions represent a general framework on which the conversation may develop.

5010.7.2 EXTERNAL AUDITORS

1. Have independent public accountants audited the bank holding company's consolidated financial statements for the FR Y-6 annual report if the BHC's consolidated assets exceed $500 million or more?
2. Does the external auditor work with the internal auditor in establishing the scope and frequency of audits?
3. In addition to performing some of the basic functions of the internal auditor, did the external auditor review the internal auditing program to assess its scope and adequacy?
4. When the BHC does not have sufficient earnings to employ an internal audit staff, yet the complexities of the organization necessitate the need for an audit, has an external auditor been engaged for this purpose?
5. Does the external auditor have the ability to conduct surprise audits and sufficient flexibility for establishing the scope of the audits and in making recommendations on internal control changes?
6. Have the BHC's insured depository institutions furnished their independent auditors with the required call reports, memorandums of understanding, written agreements, and other designated supervisory information required by section 7(a) of the FDIC Act (see section 2060.1.1)?

The comments detailed on this report must be consistent with summarized comments on the Policies and Supervision page and the Other Supervisory Issues page (item 8). Any noteworthy deficiencies in the audit program may be included on the Examiner's Comments and Matters Requiring Special Board Attention, core page 1, at the examiner's discretion.

Procedures for Inspection Report Preparation (Appendix Page 5—Parent Company Comparative Balance Sheet) Section 5010.8

The comparative balance sheet presents the composition of the parent company's balance sheet as to assets, liabilities, and capital and should be representative of the functions and activities of the company. The comparative balance sheet allows the reader to compare changes in accounts on a line-by-line basis from one period to another. It aids and gives written support to the financial analysis.

The parent company balance sheets may be requested in the officer's questionnaire or may be obtained from the accounting department. Fiscal statements can also be found in the most recent SEC Form 10-K and the FR Y-6 and Y-9 LP.

The detail on the most recent balance sheet accounts should be reconciled to subsidiary ledgers or a detailed trial balance. The statements should be adjusted to reflect generally accepted accounting principles. Adjustments should be footnoted. The statements should be presented in four columns with two interims and two fiscals except for year-end inspections when only two fiscals are required. The presentation should be (from left to right) current interim period, prior interim period, current fiscal, and prior fiscal. The statement may be formatted like the FR Y-9 LP.

The parent company comparative balance sheet should have specific detail or schedules supporting balance-sheet accounts and amounts as follows.

1. Show investments in and advances to subsidiaries as separate accounts, with separate subtotals for banks and nonbanks.

2. Provide supplementary schedules on the ''Contingent Liabilities and Schedule of Balance-Sheet Accounts Not Detailed Elsewhere (Parent)'' page showing a breakdown of accounts not detailed in the report, such as marketable securities, CDs, and other investments when considered appropriate or when the account exceeds 25 percent of total footings.

2. Break out goodwill and other intangibles from ''Other Assets'' or ''Investments in Subsidiaries,'' and detail on the ''Contingent Liabilities and Schedule of Balance-Sheet Accounts Not Detailed Elsewhere (Parent)'' page.

3. Break out ''other real estate owned'' from ''Other Assets,'' and detail on the ''Contingent Liabilities and Schedule of Balance-Sheet Accounts Not Detailed Elsewhere (Parent)'' page.

4. ''Other Assets'' and ''Other Liabilities'' should be broken down and detailed on the ''Contingent Liabilities and Schedule of Balance-Sheet Accounts Not Detailed Elsewhere (Parent)'' page if any item in the account is considered significant.

5. Mandatory convertible debt instruments should be shown separate from subordinated capital notes and debentures and detailed on the unaffiliated borrowings on the ''Liquidity and Debt Information'' confidential page ''C.''

6. Stockholder's equity should contain the following categories, as applicable: common stock, perpetual preferred stock, limited life preferred stock, capital surplus, retained earnings (undivided profits), reserves for contingencies and other capital reserves. Limited life preferred stock should be shown separate from stockholders' equity. For all capital stock issues indicate in a footnote the par value and the number of shares authorized and outstanding for each period. If there is more than one type of stock, indicate the voting rights, preferential dividend rights, and conversion rights, where applicable.

The examiner should make certain that the—

1. investments in subsidiaries equals the investments detailed on the ''Investment in and Advances to Subsidiaries'' page,

2. advances to subsidiaries equals advances detailed on the ''Investment in and Advances to Subsidiaries'' page,

3. commercial paper total equals the commercial paper totals detailed on the Commercial Paper (Parent) page and the ''Liquidity and Debt Information'' confidential page ''C,''

4. total of short-term and long-term debt equals the same totals for unaffiliated borrowings on the ''Liquidity and Debt Information'' confidential page ''C,''

5. ''Other Assets'' and any other accounts detailed on the ''Contingent Liabilities and Schedule of Balance-Sheet Accounts Not Detailed Elsewhere (Parent)'' page reconciles to the corresponding items on the page (the ''Contingent Liabilities and Schedule of Balance-Sheet Accounts Not Detailed Elsewhere (Parent)'' page may show only significant items in the categories without totals), and

6. parent's equity accounts equal those on the ''Statement of Changes in Stockholder's Equity'' and on the ''Consolidated Comparative Balance Sheet'' page.

The comparative income statement presents income of the parent available to satisfy expense requirements. It also can be an indicator of the structure of services and activities provided at the parent level.

The purpose of the statement is to determine—

- the levels and types of intercompany income,
- that the sources of external income are consistent with authorized activities,
- the changes in corporate policy via changes in intercompany income, and
- that the types and levels of the parent's expenses are appropriate for the parent's activities.

All statements of income and expenses should be requested in the officer's questionnaire. Fiscal information can be found in the holding company's annual report to shareholders, FR Y-6, and/or SEC Form 10-K. Interim results are generally requested from the corporation's accounting or comptroller department.

Two interims and two fiscals should be presented unless the inspection is as of fiscal year-end, when only two fiscals are required. The report page should show all significant categories of operating income and expense. A supplementary schedule should be provided breaking down any category of other income or expense that equals or exceeds 25 percent of its respective total.

If possible, insurance commission income is to be shown net of premiums collected, and, when available, commissions should be broken down to show those directly related to credit extended within the bank holding company organization. The various income components from internal and external sources need to be detailed separately to allow cross checking with the ''Income from Subsidiaries'' pages.

Equity in undistributed earnings of subsidiaries should be listed below net operating income to derive ''net income.'' Where applicable, show separately the equity in undistributed earnings of subsidiary banks and nonbanks.

The examiner should make certain that—

- dividends, interest, management, and service fees and equity in undistributed earnings of subsidiaries equal the totals on the ''Income from Subsidiaries'' pages and
- net income equals the amounts reported on the ''Statement of Changes in Stockholders' Equity (Parent)'' and ''Comparative Statement of Income and Expense (Consolidated)'' pages. In those cases where the figures do not agree, the difference should should be footnoted and detail should be provided for the difference.

Classified assets, off-balance transactions, and other transfer risk problems (OTRP) are summarized by organizational level, whether at the parent company, banking subsidiaries, or nonbank subsidiaries, and compared to valuation reserves established to absorb known and potential losses. For banking subsidiaries the classified items are derived from the most recent federal and state examinations for the individual bank subsidiaries.

Report the classification, reserve, noncurrent, and loan/lease level ratios as detailed on the report page. The ratio of consolidated classified assets to Tier 1 capital should be included.

The ''continued'' page should contain comments regarding the sources of information and methods used by the examiner for determining consolidated asset quality.

For the parent company, the classification totals should be broken down into the major asset categories (e.g., ''Loans,'' ''Other Real Estate,'' and ''Other Assets''). The lead bank subsidiary's classification should be broken out along with any other bank that has classified assets representing 20 percent or more of total consolidated classified assets. Nonbank credit extending subsidiary assets should be broken out if the nonbank subsidiary had classifications greater than 5 percent of consolidated classified assets, or other large problem credits or classified assets.

There may be occasions where one or more subsidiary banks may not have been subject to an asset quality review by a bank supervisory agency within the last two years, which impedes the bank holding company examiner from making an accurate judgment on the company's asset quality. The examiner may accept the internal criticized assets of the bank holding company *only if* the internal system was tested by the examiner and deemed to be valid. Generally, such testings should be conducted as necessary in order to make an informed judgment on consolidated asset quality. Comments should be provided about whether the examiner was able to rely on information depicting asset quality or that such information was not available.

Classification totals of off-balance-sheet transactions, if any, should be broken out separately and summarized for each level of the organization (parent company, bank subsidiaries, and nonbank subsidiaries).

The source for reporting classified asset totals should be stated (FRB, OCC, FDIC, internal operations, or internal audit review) along with the respective as-of date. As an alternative, classified asset totals may be listed for individual bank and nonbank subsidiaries.

The purpose of preparing this summary is to—

1. determine the amount and degree of risk and potential loss associated with on- and off-balance-sheet transactions and activities. This is accomplished by summarizing the amount of classified assets and losses and other potential losses that may result from on- and off-balance-sheet activities. This includes off-balance-sheet risk and transfer risk at the consolidated organizational level, as well as the general composition of such potential losses at the parent company, bank subsidiaries, or nonbank subsidiaries;
2. analyze ratio trends in consolidated asset quality for the current and previous two inspections;
3. determine the extent to which such classified assets and off-balance-sheet risk influence the overall financial condition of the consolidated organization;
4. determine the adequacy of reserves. The page alerts management about the need for increasing the valuation reserve accounts;
5. disclose problem assets and off-balance-sheet transactions requiring management's attention;
6. show in summary form all classifications and criticisms assigned by examiners in determining asset quality and the adequacy of respective reserves; and
7. aid in the identification of existing and potential problems in the banks that may have an overall effect on the bank holding company.

The information for the report page is derived from two other completed pages/workpapers, ''Parent Company and Nonbank Assets Subject to Classification'' and ''Classified Assets and Capital Ratios of Subsidiary Banks.'' The information is obtained by determining the collectibility or forced sale value of assets or potential losses that may arise from certain on- and off-balance-sheet transactions. For banks, the information is to be generated from bank examination reports, which are available at the Reserve Bank. (The holding company may have copies of the open sections of the reports.)

Investments in and advances to bank and credit-extending nonbank subsidiaries by the parent are not to be classified. The examiner may, however, classify the parent's investments in and advances to noncredit-extending nonbank subsidiaries. For additional information on classifying an investment to a noncredit-extending subsidiary, see section 4070.0.

The use of abbreviations of subsidiaries within narrative comments, as presented on the ''Scope and Abbreviations'' Core page 2, is permissible. The examiner may comment on and analyze lending policies, documentation, collection procedures, and past-due volume in the aggregate. Such comments should be consistent with comments contained in other report pages and workpapers.

The examiner should provide comments on the adequacy of the valuation reserves and any recommendations to management to provide for additional loan-loss provisions. The examiner should also recommend that management maintain a level of loan-loss reserves that is adequate to offset 100 percent of assets classified loss and still have a balance sufficient to absorb normal unidentified, unanticipated future losses from operations.

Weighted classified assets includes 100 percent of loss, 50 percent of doubtful, 20 percent of substandard and, when applicable, value impaired (net of adjusted transfer risk reserve). It is appropriate to comment on weighted classified assets on the ''Analysis of Financial Factors'' Core page 3.

Noncurrent loans and leases refers to the end-of-period dollar amount of loans and lease-financing receivables past due 90 days or more and still accruing, plus those carried in nonaccrual status, as reported for each loan category.

This report page should not be included in the Core Section of the report for one-bank holding companies. For those bank holding companies, the examiner will include the classifications on the ''Parent Company and Nonbank Assets Subject to Classification'' and the ''Bank Subsidiaries'' report pages when assets are classified and/or written up as required.

The examiner should make certain that the aggregate classifications and reserve amounts agree with those reported for the parent, the banking subsidiaries, and the nonbank subsidiaries on the ''Parent Company and Nonbank Assets Subject to Classification'' and the ''Classified Assets and Capital Ratios of Subsidiary Banks'' pages/workpapers. If classifications are discussed on the ''Examiner's Comments and Matters Requiring Special Board Attention'' page, the totals should be confirmed.

5010.10.1 CLASSIFICATION OF ASSETS

On May 7, 1979, the three federal banking agencies issued a joint statement announcing a ''Uniform Agreement on the Classification of Assets and Appraisal of Securities Held by Banks.'' The statement includes definitions of the classification categories and specific information on classifying securities in bank examinations. The classification categories established are also applicable to classifying parent company and nonbank assets. Although bank asset classification standards are generally not applied to classifying nonbank assets due to the difference in risk characteristics of the assets, the classification categories are the same. Despite the differences that may exist between bank and nonbank assets, the standards for classifying investment securities can be applied directly to securities held by the parent company. The statement revised bank examination procedures established in 1938 and revised July 15, 1949.

Classification units are designated as substandard, doubtful, and loss.

5010.10.1.1 Substandard Assets

A substandard asset is inadequately protected by the current sound worth and paying capacity of the obligor or of the collateral pledged, if any. Assets so classified must have a well-defined weakness or weaknesses that jeopardize the liquidation of the debt. They are characterized by the distinct possibility that the bank will sustain some loss if the deficiencies are not corrected.

5010.10.1.1.1 Substandard Classification—Guidelines for an Asset When a Substantial Portion Has Been Charged Off

In some cases, credit-extending subsidiaries with loans to financially troubled borrowers have charged off substantial portions of these credits. Consistent with long-standing supervisory practice, the evaluation of each extension of credit should be based upon the fundamentals of the particular credit. That is, the evaluation of each credit should be based upon the borrower's (or the collateral's) current and stabilized cash flow, earning and debt service capacity, financial performance, net worth, guarantees, future prospects, and other factors relevant to the borrower's ability to service and retire its debt.

Based upon consideration of all of the above relevant financial factors, this evaluation may indicate that a credit has well-defined weaknesses that jeopardize repayment in full, but that a portion of the loan may be reasonably assured of repayment. When a charge-off has been taken in a sufficient amount so that the remaining recorded balance of the loan is being serviced (based upon reliable sources of cash flow) and is reasonably assured of repayment, this remaining recorded balance would generally be classified no more severely than substandard. Consistent with long-standing classification guidelines, a substandard classification of the remaining recorded balance would only be appropriate when well-defined weaknesses continue to be present in the credit. For example, when the remaining recorded balance of an asset is secured by readily marketable collateral, the portion that is secured by this collateral would generally not be classified.

This approach would generally be appropriate when an organization maintains sufficient controls over its lending function and maintains adequate current documentation to support the credit analysis of the loan. This classification approach could not be utilized for loans for which the loss exposure cannot be reasonably determined, e.g., loans collateralized by properties subject to environmental hazards. This approach would also not be justified when sources of repayment are considered unreliable.

5010.10.1.2 Doubtful Assets

An asset classified doubtful has all the weaknesses inherent in one classified substandard. However, it has the added characteristic that the weaknesses make collection or liquidation in full, on the basis of currently existing facts, conditions, and values, highly questionable and improbable.

5010.10.1.3 Loss Assets

Assets classified loss are considered uncollectible and of such little value that their continuance as bankable assets is not warranted. This classification does not mean that the asset has absolutely no recovery or salvage value, but rather it is not practical or desirable to defer writing off this basically worthless asset even though partial recovery may be effected in the future.

‘‘Fifty percent of the total of doubtful and all of loss will be deducted in computing the net sound capital of the bank. Amounts classified loss should be promptly charged off.’’

5010.10.2 THE APPRAISAL OF SECURITIES IN BANK EXAMINATIONS

‘‘Investment quality securities are marketable obligations in which the investment characteristics are not distinctly or predominantly speculative. This group generally includes investment securities in the four highest rating grades and unrated securities of equivalent quality. Neither market appreciation nor depreciation in these securities will be taken into account in figuring net sound capital of the bank. This policy is intended to apply to recognized sound investment practices of banks and not to those situations where the portfolio requires special treatment by a supervisory agency.’’

‘‘Subinvestment quality securities are those in which the investment characteristics are distinctly or predominantly speculative. This group generally includes securities in grades below the four highest grades and unrated securities of equivalent quality, defaulted securities, and subinvestment quality stocks.’’

‘‘Securities in grades below the four highest rating grades and unrated securities of equivalent value will be valued at market price and the depreciation will be classified doubtful; remaining book value will be classified substandard. Depreciation in defaulted securities and subinvestment quality stocks will generally be classified loss; remaining book value will be classified substandard.’’

‘‘An exception to the above will be made in the case of municipal general obligations which are backed by the credit and taxing power of the issuer. The entire book value of subinvestment quality municipal general obligations, which are not in default, will be classified substandard. In the event of a default of a municipal general obligation, a period of time is usually necessary to permit the market for these defaulted securities to stabilize or for the issuer to put in place budgetary, tax or other actions that may eliminate the default, or otherwise improve the post-default value of the securities. The market for the defaulted securities will be periodically reviewed by the regulatory authorities. Upon a determination that a functioning market has been reestablished, depreciation on defaulted municipal general obligations will be classified as loss. During such interim, the book value of all defaulted municipal general obligation securities will be classified doubtful. (The above exceptions will not apply in those instances where the supervisory authorities determine that there is no likelihood that the municipality will be able ultimately to repay or satisfactorily restructure its obligations.)''

5010.10.3 1979 REVISION TO THE 1938 ACCORD

Type of Security	Classification		
	Substandard	Doubtful	Loss
Investment quality	XXX	XXX	XXX
Subinvestment quality, except	Market value	Market depreciation	XXX
Subinvestment quality, municipal general obligations	Book value	XXX	XXX
Defaulted securities and subinvestment quality stocks, except	Market value	XXX	Market depreciation
Defaulted municipal general obligations:			
Interim	XXX	Book value	XXX
Final, i.e., when market is reestablished	Market value	XXX	Market depreciation

1. The accrual/nonaccrual status of the loan must continue to be determined in accordance with the glossary to the current call report or bank holding company reporting instructions. Thus, while these partially charged-off loans may qualify for nonaccrual treatment, cash-basis recognition of income will be appropriate when the criteria specified in the report guidance is met.

This Core report page is to present the consolidated balance sheet as of the financial statement date, the comparable date for the previous year, and the last two fiscal year-end statements. When the inspection is conducted at fiscal year-end, only two fiscal year-end statements need be presented. The comparative statement allows the reader to analyze any changes in asset, liability, and capital structure and to determine the condition of the consolidated organization on the specified dates.

The financial statements should be requested in the officer's questionnaire. Fiscal financial statements can also be obtained from the FR Y-6, FR Y-9, the SEC Form 10-K, and published reports to shareholders.

The balance sheets should be presented in columnar form with the current interim first, prior interim period, current fiscal and prior fiscal. They may be formatted like the FR Y-9.

In preparing the comparative balance sheet, the following should be done.

1. Gross loans should be shown and then netted of unearned discount and reserve for loan losses.

2. Federal funds sold and securities purchased under resale agreements may be shown as one amount or separately, depending on how the company prepares its statements. Similar treatment should be given to federal funds purchased and securities sold under repurchase agreements on the liability side.

3. Total deposits should be broken down or footnoted to show interest-bearing and noninterest-bearing deposits in domestic and foreign offices.

4. Mandatory convertible debt instruments should be shown separate from subordinated capital notes and debentures and detailed on the ''Liquidity and Debt Information'' Confidential Page ''C.''

5. Stockholder's equity should be detailed using the following categories, as applicable: common stock, perpetual preferred stock, capital surplus, retained earnings (undivided profits), and reserves for contingencies and other capital reserves.

The amount of total consolidated debt should agree with unaffiliated debt for the current period on the ''Liquidity and Debt Information'' Confidential page ''C.'' Any exceptions should be footnoted.

Equity capital should agree with the individual components shown on the ''Statement of Changes in Stockholders' Equity (Parent)'' page for the respective periods and with stockholders' equity on the ''Parent Company Comparative Balance Sheet'' Core page 5. Any exceptions should be footnoted.

Figures used in the analysis on the ''Analysis of Financial Factors'' Core page 3 and the ''Capital Structure (Consolidated)'' pages should agree with this statement.

Inspection Report Preparation (Appendix Page 9—Comparative Consolidated Statement of Income and Expenses) Section 5010.12

This report page is to present a *consolidated* statement of income and expense as of the financial statement date, the comparable date for the previous year, and the last two fiscal year-end statements. When the inspection is conducted at fiscal year-end, only two fiscal year-end income and expense statements need be presented. The statement aids the reader in an analysis of corporate earnings performance on a consolidated basis and provides the ability to further analyze changes in income and expense accounts from one period to another.

Statements of income and expenses should be requested in the officer's questionnaire. Statements for fiscal periods can also be obtained from the FR Y-6, FR Y-9, the SEC Form 10-K and published reports to stockholders.

The statement of income and expenses should be presented in columnar form with the current interim first, prior interim period, current fiscal, and prior fiscal. They may be formatted like the FR Y-9.

Any detail available that breaks down ''interest income'' for the most recent fiscal year into components should be presented either on the statement as a footnote or on a supplemental page, the ''Comparative Statement of Income and Expenses (Consolidated)'' page, if considered appropriate by the examiner.

Provisions for loan losses should be shown as a line item and not grouped in ''other expenses.'' ''Other income'' and ''other expenses'' should be broken down to provide additional detail at the discretion of the examiner.

Net income should normally agree with net income of the parent on the ''Comparative Statement of Income and Expenses (Parent)'' page and the ''Statement of Changes in Stockholders' Equity (Parent)'' page. Footnote differences.

The risk-based capital guidelines apply on a consolidated basis to bank holding companies with consolidated assets of $150 million or more. For these BHCs, the designated FR 1225 report page will be used. For BHCs with consolidated assets of less than $150 million, the risk-based capital guidelines apply on a bank-only basis unless (a) the parent holding company is engaged in nonbank activity involving significant leverage (e.g. engaged in significant off-balance sheet activity); or (b) the parent company has a significant amount of outstanding debt that is held by the general public. For BHC with total assets of less than $150 million the Capital Structure (FR 1241) report page is used.

5010.13.1 BHCS WITH CONSOLIDATED ASSETS OF $150 MILLION OR MORE—[CORE PAGE 10—CONSOLIDATED CAPITAL STRUCTURE (FR 1225)]

The consolidated capital structure report page summarizes the various components of the BHC risk-based capital ratios. Two report pages are provided to allow for risk-based capital computations during transition and at year-end 1992 for final implementation. The pages provide the various limitations for the respective components of Tier 1 and Tier 2 capital. For both report pages, the first page summarizes ‘‘Total Qualifying Capital’’ comprised of Tier 1 and Tier 2 capital, adjusted for investments in unconsolidated financing subsidiaries and reciprocal holdings of capital.

Tier 1 capital consists of permanent core capital elements (common equity, noncumulative perpetual preferred stock, a limited amount of cumulative perpetual preferred stock, and minority interest in the equity of consolidated subsidiaries). Tier 1 capital is derived by subtracting goodwill from the sum of Tier 1 capital elements.

Tier 2 capital consists of: (a) a limited amount of the allowance for loan and lease losses; (b) auction rate perpetual preferred stock plus any cumulative perpetual preferred stock exceeding its Tier 1 limitation; (c) perpetual debt, mandatory convertible securities, and other hybrid capital instruments; (d) long-term perpetual preferred stock; and (e) limited amounts of term subordinated debt, intermediate-term preferred stock, and unsecured long-term debt issued prior to March 12, 1988.

For Tier 2 capital, the amount of mandatory convertible securities that have the proceeds of common or perpetual preferred stock dedicated to retire or redeem them should be treated as term subordinated debt subject to the established limit of 50 percent of Tier 1 capital. Mandatory convertible securities, net of the perpetual preferred or common stock dedicated to redeem or retire the issues, are included within Tier 2 on an unlimited basis. Tier 2 capital may not exceed Tier 1 capital.

Investments in unconsolidated financial subsidiaries and reciprocal holdings of capital are subtracted from the combined total of Tier 1 and Tier 2 capital to determine the amount of total qualifying capital.

Core page 10–1 provides a summary of risk weighted on- and off-balance sheet assets, adjusted (reduced) for the excess of the allowance for loan and lease losses not included in Tier 2 capital and the allocated transfer risk reserve (ATRR). In addition, it provides a comparative peer and historical summary of risk-based capital ratios, growth rates, and dividend payout ratios.

Core page 10–2 provides a summary comments section to discuss any pertinent aspects of the institution’s capital structure not evident from the schedule.

The information on the capital structure page will give support to the examiner’s evaluation of the bank holding company’s capital adequacy. The most convenient method to obtain the information is to request it in the officer’s questionnaire, or through direct contact with the accounting department.

The amounts on the risk-based capital schedules should be shown as of the same date as the ‘‘Consolidated Comparative Balance Sheet’’ of the inspection report. Refer to the Risk-based Capital Guidelines in Appendix A of Regulation Y and Manual sections 4060.3 and 4060.4 for a discussion of the Capital Adequacy Guidelines and the minimum risk-based capital and leverage ratios for BHCs.

Use the instructions and guidance found on the report page and worksheets. When completing the supplementary capital section, insert the aggregate amount of each component in the space provided. If more than one issue of a particular Tier 2 capital component is outstanding, a range of rates should be shown in the appropriate space, giving the lowest and the highest rates paid.

Comments under the Risk-based Capital schedule should include:

- Any unusual terms and conditions relating to issues of supplementary capital that the examiner feels should be mentioned;
- An indication of whether a subsidiary bank's equity represents the proceeds from the issuance of parent debt (double leverage);
- A presentation or description of risk-based capital components for statutory purposes if there is a violation for which the statutory definition is relevant.
- A situation whereby the levels of risk warrant significantly higher risk-based capital ratios than the minimums.

The amounts of Tier 1 and Tier 2 used in this analysis of consolidated risk-based capital on the ''Analysis of Financial Factors'' page should be consistent with the amounts on this page.

5010.13.2 WORKSHEETS

In addition to the report pages, BHC Risk-Based Capital Calculation Worksheets have been developed for examiner use with year-end 1992 final implementation. The worksheets are to be retained with the examiner's workpapers. If the bhc generated data was validated by the examiner and accepted to support or partially substitute for the computation of the elements, it should also be retained with the worksheets. The worksheets provide more detail as to the composition of core capital elements and supplementary capital elements. In addition, the footnotes provide more detailed explanations of the various components than are found on the actual report pages.

5010.13.3 BHCS WITH LESS THAN $150 MILLION IN CONSOLIDATED ASSETS—[PAGE—CAPITAL STRUCTURE (LEAD BANK OR OTHER BANK SUBSIDIARY (FR 1241)]

The FR 1241 report page is used primarily for the lead bank. Report pages have been developed for year-end 1992 final implementation. The report pages are nearly identical to those used for state member bank examinations (FR 1460). If there is no one lead bank, the report pages should be prepared for each comparable lead bank.

This report page provides a summary of the policies formulated by the board of directors by which active management supervises holding company operations. The objective is to determine whether there are adequate formal policies developed and supervised, either directly through the board of directors, or by a delegation of the authority, for the parent company and its subsidiaries. Another objective is to evaluate management's performance in carrying out those policies for the entire organization. These policies aid in giving insight into the operations of the holding company. The policies should ensure that all statutory and regulatory requirements are met and that proper controls (management information systems) are in place to minimize risk. Examiners should encourage BHCs to develop formal written policies on all items presented.

The report page is to provide an analysis of the adequacy of supervision exercised by the holding company over its subsidiaries, and policies concerning intercompany relationships. Also included is a discussion of deficiencies in the policy-making process, any noncompliance with existing policies, and the plans for correcting any deficiencies.

In the officer's questionnaire, the examiner may request some of the information pertaining to policies. Insight into policies may also be gained by reviewing the holding company's annual reports to stockholders and through discussions with management. If the holding company does not have any formal written policies, the organization's operating procedures should be discussed with officers responsible for the various areas.

Compliance with policies may be determined by reviewing recent internal and external audit reports, recent bank examinations, and discussions with management at the subsidiary level, and by conducting tests to determine the extent of compliance with policies. Discussions with management are necessary to obtain a thorough understanding of management and supervisory practices, policy-development techniques, the degree to which management information is utilized to monitor subsidiaries, and overall management philosophy.

The policies should be summarized as succinctly as possible in narrative form. If the holding company has no formal policies the examiner may use an introductory statement indicating that comments were derived from discussions with senior management. Absence of any formal policies may require the examiner to make a recommendation on the ''Examiner's Comments'' Core page 1 that the holding company strongly consider the establishment of formal written policies in order to supervise its subsidiaries more effectively.

This report page should address existing policies and the level of control and supervision exercised over subsidiaries. How effectively policies are carried out should be shown in the respective sections of the report. Where policies result in violations of law or regulation, comments should be made on the ''Examiner's Comments'' Core page 1 and detailed on the ''Violations'' page. If any policy is considered inconsistent with safe and sound banking practices, the matter should be presented on Core page 1 and detailed elsewhere in the report.

Comments on policies that are on other pages in the report should be consistent with this report page. Those comments and report pages are:

1. Dividends and fees from subsidiaries—on the ''Statement of Changes in Stockholder's Equity,'' ''Income from Subsidiaries,'' and the ''Cash Flow Statement (Parent)'' pages.
2. Dividends paid to shareholders—on the ''Statement of Changes in Stockholder's Equity,'' and the ''Cash Flow Statement (Parent).''
3. Budgeting and tax planning—on the ''Other Supervisory Issues'' page.
4. Internal audit—on the ''Audit Program'' page.
5. Insider transactions—on the ''Extensions of Credit to BHC Officials'' page.

5010.14.1 QUESTIONS TO BE ADDRESSED ON THE POLICIES AND SUPERVISION REPORT PAGE

5010.14.1.1 Level of Control and Supervision Exercised over Subsidiaries

1. Do subsidiaries operate autonomously? What is the degree of overlap between BHC and bank management?
2. Who sets major policies of the corporation?
3. How does the holding company monitor the operations of its subsidiaries (reports, directors, etc.)?
4. Are the subsidiaries involved in formulating the holding company's budget and tax plan-

ning? How is the holding company's budget developed and at what corporate level is income tax planning coordinated?

5. Describe the intermediate and long-term strategic planning process and whether the subsidiaries are integrated into a consolidated planning process. Does the consolidated plan include the minimum elements discussed in section 2010.4 of this manual? Is the plan effective and is it consistently applied?

6. How is the internal audit of subsidiaries performed?

- Does an audit team audit each subsidiary on a periodic basis?
- What is the frequency of the audit cycle?
- To whom does the audit department report?
- Is there an audit committee of directors?

7. Is the control and supervision of subsidiaries deficient?

5010.14.1.2 Loans and Investments of Subsidiaries (See sections 2010.2 and 2010.3.)

1. Does the parent company's policies address the minimum elements of a lending policy as listed and described in section 2010.2 of this manual?

2. Does each subsidiary have its own loan policy or does the holding company establish policy for all subsidiaries? Are lending policies considered adequate and is there general compliance?

3. Does each subsidiary handle its own investment portfolio or are investments managed at the holding company level? Are investment policies adequate and is there general compliance? Are investment-authorization procedures adequately detailed to prevent circumvention of investment-policy directives?

4. Does the holding company have a credit review team or is credit review handled by each subsidiary?

5. Does the BHC have a policy establishing limits on consolidated concentrations of credit?

5010.14.1.3 Funds Management and the Adequacy of Existing Policies (See section 2010.1.)

1. Does the parent-company management have policies in place to prevent funding practices that put at risk the welfare of the subsidiary banks or the consolidated organization?

2. Does the parent company maintain for itself and its subsidiaries policies that provide guidance and controls for funding practices?

3. To what extent do the subsidiaries follow the funding policies and how effective are they in reducing risk to the entire organization?

4. At a minimum, do the parent company's funding policies address:

a. Capitalization levels for bank subsidiaries, the nonbank subsidiaries, and the consolidated organization as to whether the policy for:

- Bank and consolidated capital are consistent with the Board's capital adequacy guidelines;
- Nonbank capital includes maintaining the capital level at industry standards;
- The holding company specifies the desired range of capital for each entity, and the measures that should be taken in the event that capital falls below that level;
- The parent company specifies the degree of double leverage that it is willing to accept;
- Each entity specifies the method for calculating dividends?

b. Asset/liability management including interest rate sensitivity matching, maturity matching, and the use of interest rate futures and forwards and other financial derivative instruments?

c. How nonbank subsidiaries fund their activities?

5010.14.1.4 Loan Participations Among Subsidiaries (See sections 2010.2 and 2020.2.)

1. Under what circumstances are loans participated?

2. Who determines the type of loans that may be participated? Does the BHC have policies in that regard? Are credit standards included in the lending policy for purchased loan participations and does the policy require complete loan documentation.

3. Does the lending policy place limits on the amount of loans purchased from any one source and does it place an aggregate limit on such loans?

4. Are low-quality loans allowed to be participated?

5010.14.1.5 Dividends and Fees From Subsidiaries

1. What is the policy for assessing dividends from subsidiaries?
2. Does the policy take into account statutory and regulatory restrictions on bank dividends as well as subsidiary asset quality, earnings, the ability to service debt and growth prospects?
3. What is the policy for determining fees charged to subsidiaries in relation to management and other services rendered?
4. Are service fee arrangements supported by contracts and are the subsidiaries actually receiving the services?
5. Are the fees charged to subsidiaries reasonable and justifiable in relation to the fair market value of the services provided? If no market exists for the services provided, are fees based on their cost plus a reasonable profit? Has the BHC directly or indirectly through other subsidiaries burdened its banking subsidiaries with excessive fees or unreimbursed charges to fund its debt service, dividend payments or support of other subsidiaries?

5010.14.1.6 Risk Evaluation and Control

1. Has the bank holding company formalized policies and procedures in identifying, evaluating, and controlling risk?
2. What has management done to limit its risk exposure in relationship to the amount of the organization's capital, or earnings?
3. Do audit procedures include a determination as to whether management's risk evaluation and control procedures are being followed as prescribed?
4. Has the bank holding company taken steps to identify and control its exposure to losses resulting from contingent liabilities and off-balance sheet activities such as standby letters of credit, interest rate swaps, foreign exchange contracts, currency swaps, options, securities lending and borrowing, insider transactions, and commitments to lend?

5010.14.1.7 Management Information Systems

1. How effective and timely are the parent company's policies and procedures with respect to its management information systems as to:
   - Audit
   - Budget
   - Reporting
   - Insurance
2. Does the board of directors receive sufficient information about key areas of its operations?

5010.14.1.8 Internal Loan Review

1. Is an internal loan review program in existence for bank and/or nonbank subsidiaries? If no program exists, does the size and complexity of the organization warrant implementation of a formal process?
2. Will the internal loan review procedures adequately identify deteriorations in credits, loans that do not comply with written loan policies and loans with technical exceptions in a timely manner?
3. Is the loan review function independent of the loan approval function, with written findings reported to a board committee or senior management committee not directly involved in lending?
4. Are the quality and size of the internal loan review staff sufficient in relation to the organization's size and complexity?
5. Are the scope and frequency of the loan review procedures adequate?

5010.14.2 DISCUSSION AND APPRAISAL OF OTHER PARENT COMPANY POLICIES

Another parent company policy that should be discussed and appraised, in addition to those listed on the ''Policies and Supervision'' page is the Consolidated Planning Process whereby the subsidiaries are integrated into a consolidated plan. See Manual section 2010.4.

This report page is used to present information on all violations discussed in the inspection report. The objective of the report page is to bring violations to the attention of the board of directors for corrective action and to alert the supervisory agencies to the need for supervisory attention.

The information reported should center on violations by the holding company uncovered during the course of the inspection and those that are discovered through a review of reports filed with supervisory authorities. Information on violations by the subsidiary bank(s) in its dealings with the holding company or affiliates may be obtained from the most recent bank examination reports or uncovered during the holding company inspection.

This page should include all BHC and nonbank subsidiary violations of the Act, Regulation Y, Section 23A and 23B violations of the Federal Reserve Act, and other applicable statutes and regulations. A complete write-up is necessary if the violation is not detailed on another page (including the date of the violation or transaction, a description of the transaction or act, the reason for the violation, the amount of the transaction, and the amount of any potential or actual loss). When the information is presented elsewhere, a brief summary and a reference to that page is sufficient.

Violations of the holding company should be presented first, followed by the nonbank subsidiaries and then bank subsidiaries. Bank violations not involving the holding company or nonbank subsidiaries should not be detailed here.

If violations of sections 23A and 23B of the Federal Reserve Act (transactions with holding company affiliates) are disclosed in a subsidiary bank's examination report or during the inspection of the holding company, comments should be limited to a brief summary on the ''Violations'' page with a reference to the intercompany transaction(s) on the ''Other Supervisory Issues'' page. This latter page will contain additional detail on the violation. (Note: only bank subsidiaries can be cited for the violations of sections 23A and 23B of the Federal Reserve Act although the violation may have resulted from holding company actions). The examiner may also criticize management on the ''Examiner's Comments'' Core page 1 of the inspection report for causing the bank to be in violation of sections 23A and 23B provisions.

Apparent violations should be presented on the ''Other Matters'' page, and may be presented on the ''Examiner's Comments'' page if considered appropriate by the examiner. Violations will be reviewed on a case by case basis for possible follow-up administrative action(s).

Violations must be presented in brief on the ''Examiner's Comments'' page referring the reader elsewhere for detail. The examiner should ensure that information contained on these related pages is consistent.

This page presents nonconfidential information or issues which would not be suitable for presentation on any other page in the report. BHC plans may be discussed here in order to anticipate any regulatory or supervisory considerations. *Apparent* violations are also presented here and may be referred to on ''Examiner's Comments'' page or on other report pages at the examiner's discretion. BHC plans for future activities may be presented.

The information might be derived from minutes of the corporation and/or subsidiaries, discussions with management, and examiner observations during the inspection.

Other information that may be summarized can include:

1. Corporate plans (debt or equity issues, acquisitions, sale of assets). Be certain management has no objection to the reference to these plans. Otherwise, present such information on page C;
2. Any unfunded pension liabilities;
3. Overall condition of corporate records; and
4. Any other comments deemed appropriate by the examiner and not noted elsewhere in the report.

Any reference that involves dollar amounts, ratios, or other information contained in schedules or comments elsewhere in the report should be cross-checked.

Procedures for Inspection Report Preparation (Page—Classified Assets and Capital Ratios of Subsidiary Banks) Section 5010.17

This report page provides a summary of asset classifications and capital ratios as of the most recent federal and state examinations for the individual bank subsidiaries. The objective of the page is to aid in the identification of existing or potential problems in the banks which may have an overall effect on the holding company.

The information is to be derived from bank examination reports which are available at the Reserve Bank. (The holding company may have copies of the open sections of the reports.)

The banks are to be listed in the same order as they appear on the Organization Chart or Investments in and Advances to Subsidiaries report pages. Total assets or total average assets should be shown as presented in the examination report. Do not adjust total assets by adding back valuation reserves.

For bank holding companies, tier 1 capital includes common equity and qualifying cumulative and noncumulative perpetual preferred stock, less goodwill and other designated intangible assets. Common stockholders equity includes common stock; related surplus; and retained earnings, including capital reserves and adjustments for the cumulative effect of foreign-currency translation, net of any treasury stock, less net unrealized holding losses on available-for-sale equity securities with readily determinable fair values.

Qualifying cumulative perpetual preferred stock is limited within tier 1 to 25 percent of the common stockholders equity and minority interest. Total capital includes tier 1 plus tier 2 capital.

Weighted classified assets includes 100 percent of loss, 50 percent of doubtful, and 20 percent of substandard and value-impaired (when applicable), net of allocated transfer risk reserves (ATRR).[1] It is appropriate to comment on weighted classified assets on the Analysis of Financial Factors page.

When determining supervisory asset-quality ratings (the [A]sset rating in ‘‘CAMELS’’) for the BHC’s subsidiary banks, an asset-quality ratio is used based on a comparison of weighted classified assets to tier 1 capital (as defined for leverage purposes) plus the allowance for loan and lease losses. Examiners should use this ratio and the accompanying benchmarks in conjunction with all the other factors normally evaluated when assessing asset quality for each institution.

The allowance for loan and lease losses is defined as the bank’s total ALLL. The ALLL is *not* subject to the 1.25 percent limitation on supplementary capital elements for this calculation (that is, all of the ALLL is included in the denominator of the ratio).

The ratio of these assets to tier 1 capital plus the allowance for loan and lease losses is then compared to the existing asset-quality benchmark table to determine the asset-quality rating.

Asset-Quality Table

Asset-Rating Ranges	*Asset-Quality Ratio*
1	under 5%
2	5% to 15%
3	15% to 30%
4	30% to 50%
5	over 50%

Examiners should use the asset-quality table and other pertinent factors, including loan policies, credit administration, portfolio concentrations, and past-due levels, to determine the final asset-quality rating. While individual bank ratios may change slightly, depending on the amount of cumulative preferred stock, mandatory convertible debt, and other supplementary elements, the change in the ratio itself should not result in a change in the bank’s asset-quality rating.

This page should not be prepared for one-bank holding companies. The examiner may show this data on the Bank Subsidiaries page. However, the examiner may use this page to reflect successive examination data for several years to indicate trends. The examination dates should be cross-checked to those shown on the Bank Subsidiaries page.

1. See SR-92-2 regarding the treatment of value-impaired classifications for asset-quality purposes.

This report page presents an organization chart, giving a schematic description of the structure of the organization, the intercompany relationships and the degree of control of subsidiaries.

An organization chart provided by the holding company for various regulatory filings may be used, with revisions made for new or divested subsidiaries. The information required below may simply be added to the existing chart.

The organization chart may be pictorial (box format) or linear (listing format). The parent should be presented at the head of the page. Banks should be presented individually in the same area. Nonbanks should be presented individually in the same area (if possible).

Each subsidiary should be shown by its official name; however, there is no need to indicate the address unless necessary to distinguish identity. Subsidiaries of banks and second tier nonbank subsidiaries may be omitted or shown at the examiner's discretion. Abbreviated charts should be so footnoted.

Abbreviations used throughout the report should be presented on the ''Structure and Abbreviations'' Report page and also on the bottom of this page or following the chart. Generally, abbreviations familiar to the BHC should be used. However, efforts should be made to incorporate at least a part of the name into the abbreviation as opposed to relying strictly on initials which tend to become confusing. Also, it is desirable that abbreviations of bank subsidiaries include the word ''Bank'' to distinguish them from the parent company and/or nonbank subsidiaries with similar names.

Indicate the percentage of ownership to the nearest tenth of one percent and include directors' qualifying shares. Where all, or nearly all of the subsidiaries are wholly-owned, detail the exceptions and provide a footnote to the effect that unless shown, ownership is 100 percent.

The names and/or abbreviations shown on the organization chart are to be consistently used throughout the report (for example, the ''Income from Subsidiaries,'' ''Investment in and Advances to Subsidiaries,'' and the ''Nonbank Subsidiary'' and the ''Bank Subsidiary'' pages).

Where applicable, the order established on this page should be used in all tables of the report.

The report page provides an abbreviated history of the organization including name changes, acquisitions, mergers, reorganizations and divestitures. The objective is:

1. To present the chronological development of the bank holding company.
2. To list nonbank activities engaged in by the parent company and its subsidiaries.
3. To provide a measure of size relative to competing institutions.

The information that is included in this report page may be obtained from documents filed with the Federal Reserve System. For lines 1 through 3, refer to reports filed with the FRB such as the registration statement and FR Y–6. In response to item 3, one bank holding companies formed before December 31, 1970, first became subject to the Act on December 31, 1970, with the passage of the 1970 Amendments to the Act. A multibank company formed between 1956 and December 31, 1970, became subject to the Act on the date of controlling its second subsidiary bank. All BHCs formed after December 31, 1970, became subject to the Act on the date of controlling their first bank subsidiary. For response to item 4, history is available in applications to FRB and in public documents such as annual reports to stockholders and SEC Form 10-K. For additional information contact the corporate secretary.

Comments responding to item 4 are to be in narrative and/or list form and should include:

1. The present number of banking subsidiaries, the percent of State deposits on an aggregate basis and size ranking in the State. For a money-center holding company, also provide its ranking on a national basis.
2. The date and outline of any acquisitions, mergers, reorganizations, or name changes.
3. A list and brief description of activities in which the nonbanking subsidiaries are engaged.
4. A discussion of any permanent or limited grandfather rights, and any plans for divestment of shares or termination of nonbank activities.

The activities shown on this page should be consistent with those shown on the nonbank subsidiary pages.

5010.20.1 INVESTMENT IN AND ADVANCES TO SUBSIDIARIES

This schedule details the parent's financial relationships with its subsidiaries. It will be used to support comments or analyses in other sections of the report, or to clarify answers to the questions on the continued page, ''Investment In etc.—continued.''

The objectives of the report page are:

1. To determine the percent of the parent's assets comprised of investments in and advances to each subsidiary.
2. To help determine the dependency of subsidiaries on advances from parent.

The parent's investments in and advances to each subsidiary are usually detailed in ledgers maintained by the accounting department. Each subsidiary is listed individually beginning with banks, providing subtotals for banks and nonbanking subsidiaries.

The investment in each subsidiary is to include any related unamortized goodwill. Provide a ''total'' in the ''investment'' column. From this total subtract the aggregate unamortized goodwill in all subsidiaries and detail the ''goodwill'' on the ''Contingent Liabilities'' page.

Totals for investments and advances should agree with the ''Comparative Balance Sheet'' page. The Parent's investment should be equal to its proportionate interest in each subsidiary's equity as presented in financial statements on the ''Nonbank Subsidiary Financial Statement and Condition'' and the ''Bank Subsidiaries'' pages plus any unamortized goodwill. Parent's advances should also equal ''loans from parent'' as detailed on the ''Nonbank Subsidiary Financial Statement and Condition'' and the ''Bank Subsidiaries'' pages.

5010.20.2 INVESTMENT IN AND ADVANCES TO SUBSIDIARIES (continued)

For this continuation page, the answers to questions 1 through 6 provide information on the funding of subsidiaries.

The objectives of each question are as follows:

Question 1—To determine the amount of goodwill in the investment in each subsidiary.

Question 2—To determine if the parent ''forgave'' the indebtedness of any of its subsidiaries which might indicate an inability to service its debt properly or other financial difficulties in the subsidiary.

Question 3—To determine the extent of the parent's borrowings invested as equity since the last inspection. The subsidiary's enlarged capital base might provide additional debt capacity.

Question 4—To determine if the advances are on a preferential rate basis, to help in analyzing the subsidiary's earnings proficiency.

Question 5—To determine if there is any difficulty in the subsidiary regarding its ability to service its debt properly.

Question 6—To determine if the parent lends its credit and debt capacity to its subsidiary and to aid in the analysis of the parent's contingent liabilities.

The answers to all questions should be verified against company records and discussed with the comptroller, the treasurer or the finance officer. Details on some questions can come from company's latest SEC Form 10-K or the annual report to stockholders. All questions should be answered; if not applicable, so state. It is not necessary to repeat the question when answering.

Any guarantees should also be included as contingent liabilities.

Commercial paper is a source of funds for the parent and its subsidiaries. This schedule presents the maturity and placement of commercial paper in use in the parent's operations and/or for back-up to the commercial paper. The page is required if the parent issues commercial paper.

The objectives of this report page are:

1. To summarize the extent of the parent's use of commercial paper and its ability to continue the use of this funding tool.
2. To help determine the overall liquidity position of the parent company.
3. To determine the volatility of commercial paper issued, including average turnover rate.
4. To determine whether any subsidiary bank is providing compensating balances for the benefit of the parent or nonbank affiliate.

The information required in the schedule should be requested in the officer's questionnaire or can be obtained from the accounting or treasurer's departments and verified with the general ledger. If at all possible, the data should be as of the financial statement date. (An alternate date is acceptable for the Maturity Schedule but should be specified.) The schedule should also be prepared for each nonbanking subsidiary which issues its own commercial paper.

The total commercial paper should equal amounts on ''Parent Company Comparative Balance Sheet'' (Core Page 5) and the confidential ''Liquidity and Debt Information'' page C, unless an alternate date is used.

Procedures for Inspection Report Preparation (Page—Lines of Credit (Parent)) Section 5010.22

Lines of credit are a source of funds for the parent and its subsidiaries. This schedule presents the lines of credit available for the parent's operations and/or for back-up to commercial paper.

The purpose of the report page is to be able to determine the degree of use of the lines of credit and the availability of these lines to back-up commercial paper borrowings. It is also intended to help determine the overall liquidity position of the parent company.

The information required in the schedule should be requested in the officer's questionnaire or can be obtained from the accounting or treasurer's departments and verified with the general ledger. If at all possible, the data should be as of the financial statement date.

The exact names and locations of line banks should be shown in the ''Lines of Credit'' section and totals calculated for the dollar amount columns. If a BHC has an extensive number of line banks, the detail for each line of credit may be eliminated at the discretion of the examiner with aggregate amounts and ranges included in the appropriate columns. In this instance, the total number of line banks involved and a general comment as to geographic distribution should be included.

If any subsidiary bank maintains compensating balances on behalf of the parent, the examiner should place an asterisk in the column and determine that the bank is compensated so that it does not incur a loss of income. Any resulting loss of income should be commented upon. See Manual sections 2020.4 and 2080.1.

The total lines of credit in use should equal amounts reported on ''Parent Company Comparative Balance Sheet'' (Core page 5) and the confidential ''Liquidity and Debt Information'' page C.

The answers to questions 1 through 13 should provide information about the quality of the commercial paper and the procedures for its issuance. They should also discuss funding involving the issuance of commercial paper backed by lines of credit. Examiners should refer to sections 2080.05 and 2080.1 before completing this report page.

The purpose of the report page is—

1. to determine the quality of commercial paper and to appraise the company's ability to raise additional funds in the marketplace;
2. to determine how the proceeds from commercial paper sales will be used;
3. to decide whether the use of commercial paper is in keeping with statutory requirements and regulatory requirements such as those of the Securities and Exchange Commission;
4. to determine whether the use of commercial paper satisfies liquidity needs (see section 2080.1);
5. to determine if policies in the commercial-paper funding system are safe and sound;
6. to determine if backup sources of funds are available and adequate to meet the liquidity needs of the parent; and
7. to address the examiner's concerns about commercial-paper policies, controls, and marketing methods.

The information needed to complete this report page is usually available from the holding company's investment or funds management department. It may also be obtained through discussions held with management responsible for the holding company's funding program. The information may also be available from rating agencies and in contractual agreements with lending banks.

Question 1 asks for any changes in the commercial-paper rating that may show a changing financial condition. See appendix A of this section, which lists rating indicators used by commercial-paper rating companies. Determine the cause for any change in the rating.

Bank holding companies with lower credit ratings may issue commercial paper by obtaining credit enhancements. Such credit support may be obtained from letters of credit (LOC paper) or a surety bond issued by an insurance company having a high credit rating (called credit-supported commercial paper). Bank holding company commercial paper with a lower credit rating can also be backed by other high-quality assets serving as collateral (called asset-backed commercial paper), thus allowing the bank holding company to enter the market as an issuer. (See section 2190.1 for inspection guidance about such commercial-paper enhancements.)

Question 1 further instructs the examiner to report the range of current rates paid on all commercial paper. By presenting the range of current rates paid on different maturities of commercial paper, the examiner can compare rates paid with those of the bank holding company's peers. This will aid in determining the "marketplace's" impression of the company's condition, as reflected by the rates the company must pay to attract funds.

The yields on commercial paper track those of other money market instruments. Like U.S. Treasury bills, a commercial-paper instrument is a discount instrument. Because of exposure to credit risk, the yields on commercial paper are usually higher than those of U.S. Treasury bills. As in the case of Treasury bills, interest on commercial paper is computed on a 360-day year. Treasury bills, in contrast to commercial paper, are exempt from state and local taxes and are more liquid than commercial paper.

When responding to question 2, if any subsidiary sells commercial paper for its own use or for the parent, indicate why the bank holding company chooses to structure its funding in this way. For example, a commercial-finance nonbank subsidiary of a bank holding company was authorized by the Board to underwrite (purchase) and deal in (resell or place with institutional investors) commercial paper as agent for the issuers (see section 3600.21.1). A section 20 subsidiary also can underwrite and deal in, or act as riskless principal in the placement of, commercial paper, if authorized by the Board by order (see section 2185.0).

A parent company could issue commercial paper directly or through a broker. The examiner therefore needs to be aware of the difference between direct paper and dealer paper. Direct paper is sold by the issuing firm directly to investors without using a securities dealer or an intermediary. Direct paper issuers generally require continuous funds and therefore find it more cost-effective to establish their own sales force to sell their commercial paper directly to investors. In the case of *dealer-placed commercial paper*, the issuer uses the services of a securities firm to sell its commercial paper.

If the subsidiary's name is similar to the parent's, note whether an investor can tell, by its name or through other means, that the issue is associated with the parent.

With regard to question 3, the commercial-paper specimen should clearly state that it *is not* an FDIC-insured obligation of any bank subsidiary (see section 2080.1).

The minimum round lot in commercial-paper transactions is usually $100,000, although some issuers sell commercial paper in denominations as low as $25,000. With regard to question 4, bank holding companies generally should not sell commercial paper in denominations of less than $25,000. This is to ensure that the commercial-paper instrument is suitable for investment by sophisticated investors as opposed to the general public. Commercial-paper investors are typically institutional investors.

Rollover of commercial-paper proceeds on maturity is common. The SEC has stated that obligations that are payable on demand or have provisions for automatic rollover do not satisfy the nine-month (270 days) maturity standard. SEC staff, however, has issued no-action letters for commercial-paper master-note agreements.[1] These agreements allow eligible investors to make daily purchases and withdrawals (subject to a $25,000 minimum) as long as the maturity of the note and each investor's interest therein do not exceed nine months. Such master-note agreements may allow prepayment by the issuer any time, or upon demand of the investor.

Commercial paper and commercial-paper master-note agreements can result in a potential source of funding mismatch from the use of what is commonly called "deposit sweeps." This practice is based upon an agreement with a subsidiary bank's deposit customers (typically corporate accounts). Such agreements allow these customers to reinvest amounts in their deposit accounts above a designated level in overnight obligations of the parent bank holding company.

In view of the extremely short-term maturity of these sweep arrangements, banking organizations should be advised to exercise great care when investing the proceeds. Appropriate uses of the proceeds of such deposit-sweep arrangements are limited to short-term bank obligations, short-term U.S. government securities, or other highly liquid, readily marketable, investment-grade assets that can be disposed of with minimal loss of principal. (See also sections 2080.05 and 2080.1 when reviewing commercial-paper activities.)

Concerning question 5, investing in the bank holding company's commercial paper by a subsidiary bank's trust department is generally regarded as self-dealing and a violation of trust regulations, absent express written authority and the consent of all of the trust's beneficiaries. Bank holding company examiners finding such trust-department holdings should discuss the matter in detail with Reserve Bank trust examiners or the Board's Trust Activities Section, Division of Banking Supervision and Regulation.

In response to question 6, the examiner should indicate the use of the proceeds and whether such use is considered long-term or short-term. (See also sections 2080.05 and 2080.1.)

Question 7, on concentration of holdings, is intended to aid in determining if any party can exert influence on the bank holding company due to its commercial-paper holdings. If any individual, organization, or industry holds more than 10 percent of the commercial paper, indicate if the holder(s) exerts any influence on the bank holding company's management.

In response to question 8, if there is any indication of difficulty in refinancing commercial paper at maturity, discuss this in significant detail. Indicate the reasons for the difficulty, the problems it poses for management, and management's plans to rectify those problems. This is a particularly sensitive issue because of the financial exposure that could be created by an inability to refinance.

Question 9 is intended to aid in determining the degree to which the bank holding company can rely on its line banks. Lines that have not been confirmed in writing or for which no contractual obligation exists are less certain to be

1. A master note is a negotiated agreement or contract (negotiated as to size, maturity, and price) between a borrower and investor that permits the investor to place cash, up to a stated amount, with the borrower over a designated period of time. Such unsecured credit agreements (no note is actually issued, only an agreement is signed at the beginning of the arrangement) are limited to borrowers with the highest credit ratings and large investment institutions.

Master notes have characteristics similar to those of a revolving-credit arrangement. The outstanding amount allowed may vary daily but is limited by a stated cap imposed by the issuer. Investors in such agreements control the amount invested in the note on the basis of the amount of surplus cash that is on hand. Either party can terminate the agreement with only 24 hours' notice. In reality, it is a longer-term funding vehicle because the parties generally are interested in maintaining a long-term relationship.

Unlike commercial paper, master notes are indirectly accessible to a wider array of investors. Investment firms group investments from small investors with investments made by a few large institutional investors and place the funds in master notes. The master note, unlike commercial paper, avoids the task of writing daily individual tickets for each customer. Disadvantages of the master note are the potential for daily variation in the amount invested and the potential for sudden redemption.

available than those that are confirmed and contractual.

As question 10 implies, lines of credit are often specifically established solely to back up commercial-paper borrowings. Such lines impart a measure of security to the bank holding company. Evaluate the adequacy of the total amount of these lines in relation to the volume of outstanding commercial paper.

In asking about systematic rotation, question 11 is intended to help the examiner determine if the bank holding company routinely uses the proceeds from a line of credit to pay off another, and whether the bank holding company has ever been in an aggregate nonborrowing position during a given year. If the bank holding company routinely and continuously relies on its ability to repay its lines with other line borrowings, discuss the potential effects on the bank holding company's ability to service its debt properly.

Question 12 asks for information on reciprocal lines that reveals the relationship between the lender and the bank holding company. A line's reciprocity may have a bearing on the degree to which the borrower may rely on the lender.

Question 13 is intended to help the examiner evaluate the relationship between the parent and its nonbank subsidiary. In those cases in which a subsidiary is authorized to borrow directly on the parent's lines, the examiner should evaluate the parent's internal controls and management information systems for supervising the subsidiary's borrowings.

5010.23.1 APPENDIX A—COMMERCIAL-PAPER RATINGS

Rating Notations by Commercial-Paper Rating Companies*
(Highest- to Lowest-Quality Rating)

Rating Company†			
Standard and Poor's	Moody's	Duff and Phelps	Fitch
Investment grade:			
A-1/A1+	Prime-1 (P-1)	Duff-1 (D 1–/1/1+)	F-1/F-1+
A-2	Prime-2 (P-2)	Duff-2 (D-2)	F-2
A-3	Prime-3 (P-3)	Duff-3 (D-3)	F-3
Non–investment grade:			
B	NP (Not prime)	Duff-4 (D-4)	F-S
C (Doubtful)			
In default:			
D		Duff-5 (D-5)	D

* The definition of ratings varies by rating agency.

† This list of rating companies is for the examiner's information only. The list is not an endorsement of these companies by the Federal Reserve.

Listed on this page are any material assets and liabilities (actual and contingent) not detailed on the parent company's balance sheet or other schedules in the report. Contingencies include guarantees, lease or loan commitments, letters of credit, interest rate swaps, futures and forwards transactions and pending litigation.

The purpose of this report page is:

1. To determine the extent of the parent's potential obligations and the related strain on its financial capacity resulting from contingencies.

2. To determine the quality of "Other Assets." These assets are subject to evaluation and classification, if appropriate. "Other Assets" is sometimes found to include assets acquired in violation of section 4 of the Act (particularly section 4(c)(2)).

3. To detail "Other Liabilities" which may indicate external funding relationships otherwise not presented.

The information should be derived directly from the BHC's financial statements and the board of directors' and executive committee's minutes. Management should be asked to verify and explain any contingent liabilities. A review of all "Other Assets" and "Other Liabilities" in the general ledger and subsidiary ledgers should be conducted and analyzed for appropriate types and amounts of accounts. Suspense accounts should be aged, particularly if shown as a net amount.

If there are no contingent liabilities state "None reported." Normally only items appearing on the balance sheet as of inspection date will be listed. If prior periods' items are listed, columns with dates corresponding to those on the balance sheet should be used.

Refer to Manual section 5010.8 for guidelines on presentation of details of "Other Assets" or "Other Liabilities."

The parent's guarantees on the "Investment In and Advances To Subsidiaries" page should be included as contingent liabilities. "Other Assets" and "Other Liabilities" totals should reconcile to the line items on the "Parent Company Comparative Balance Sheet" page.

The reconciliation of capital accounts provides a summary of transactions which have caused changes in each of the equity accounts for the periods indicated. There should be no charges against paid-in capital that are properly chargeable to income.

The report page is used to record and analyze changes in stockholders' equity and to determine the effects on the financial condition of the holding company.

The information should be requested in the officer's questionnaire. Sources for prior periods include the FR Y–6, FR Y–9 LP, the annual and quarterly reports to stockholders, previous reports of inspection and the SEC Form 10-K. Current period changes can be obtained from the corporation's accounting or comptroller's department.

The presentation should begin with the last two fiscal years and include the most recent year-to-date interim. The column heading ''Capital Stock'' can include common and preferred stock. However, it is necessary to distinguish the type and amount which can be accomplished by using (C) and (P), for common and preferred, beside the amounts. An appropriate legend can be inserted in the column heading.

Net income reported should agree with that reported on the ''Comparative Statement of Income and Expenses (Parent)'' and the ''Comparative Statement of Income and Expenses (Consolidated)'' pages. If net income reported on this page does not agree with the income on a consolidated basis (i.e. differences caused by minority interests), include a footnote to explain the reason for the differences.

Balances at year-end and interim period should agree with accounts on the ''Parent Company Comparative Balance Sheet'' and the ''Comparative Statement of Income and Expense (Consolidated)'' pages. Footnote and explain any differences.

These "Interim" and "Fiscal" pages can be used when the parent receives income from more than one subsidiary, or where it is needed to support comments or analyses in other sections of the report. Both the "Interim" and "Fiscal" pages should be included in the report when this situation is applicable. From the data on these two pages, the examiner is able to analyze the contribution to overall earnings made by each of the subsidiaries. The schedule also reflects the extent of the parent's upstreaming income from its subsidiaries.

The purpose of these report pages is:

1. To determine the relative share of the individual subsidiary's contribution to the holding company operation;
2. To analyze the dividend payout ratio and to compare payouts between subsidiaries;
3. To determine the proportion of each subsidiary's income paid to the parent as fees; and
4. To determine the degree of interest coverage on advances to subsidiaries.

For the interim and fiscal periods, some items can be obtained from the parent's income statement and from the BHC's workpapers showing eliminations on the consolidating income statement. Additional information can be obtained from the holding company's accounting department or comptroller.

The banks should be presented first, then nonbanks. Subtotals should be provided.

The dividend payout ratio is calculated by dividing total dividends by net income after taxes and securities transactions. Show an average payout ratio for banks and nonbanks, respectively, and an overall payout ratio. Do not show negative percentages.

5. Fees as a percentage of the subsidiary's operating income is calculated using total operating income before expenses. No subtotals for banks and nonbanks are required.

Equity in undistributed earnings, dividends, interest and total fees should equal that reported for each period on the "Comparative Statement of Income and Expenses (Parent)" page. For wholly-owned subsidiaries, the sum of the "Equity in Undistributed Earnings" and "Dividends" columns should equal its net income for the related period.

The analysis is performed and the statement is completed for BHCs with consolidated assets in excess of $1 billion, or when substantial fixed charges exist or debt is outstanding, when required by the Reserve Bank. This statement indicates the results of the parent's management of its cash position and identifies major sources of working capital and areas of disbursement. The statement also presents the cash earnings of the parent company. The cited ratios measure the parent company's ability to meet its fixed obligations and the ability of the residual earnings to cover common stock dividends. When combined with an analysis of the parent company's cash income sources from subsidiaries, it serves as a partial basis for determining the parent company's debt servicing capacity, and thus an assessment of its leverage. In addition, projected cash flow information aids in the analysis of the BHC's ability to properly service its debt.

Only items affecting cash should be shown. The ''Next Fiscal Year'' column completion is optional at the examiner's discretion if the inspection occurs early in the current year (i.e. the inspection is in January 19X6 and thus would require the data through the end of 19x7).

The objective of the report page is:

1. To determine the ability of the parent to manage its cash position and operate within debt service and funding requirements;
2. To measure the parent's ability to meet its fixed obligations and its dependency on borrowed funds to meet its cash needs;
3. To determine if the parent company's dividends to stockholders are covered by residual cash earnings;
4. To analyze any cash flow transactions which may adversely affect the financial stability of the parent;
5. To discuss parent company deficit cash flows provided by its own operations.
6. To discuss any parent company borrowings needed to sustain dividend payments to shareholders;
7. To discuss the scope for increasing cash flow to the parent company; and
8. To discuss steps management has taken, or plans to take, to restore adequate cash earnings coverage for fixed charges and dividend payments, and whether such plans should be commensurate with the maintenance of adequate loan loss reserves and Tier 1 capital levels in the bank and major nonbank subsidiaries.

The information may be requested in the officer's questionnaire and a copy of the ''Cash Flow Statement (Parent)'' page may be included with the questionnaire.

To complete the page refer to the holding company's cash receipts and disbursements journal and its general ledger and income statement(s). Also refer to any cash flow and income projections prepared by the organization.

The statement should be verified and reconciled, to the extent possible, to the BHC's published statements. Any additional items not provided for in the preprinted statement can be separately listed in an appropriate space.

Any dividends considered unreasonable should be discussed in the comments section. Dividends paid with funds derived from new borrowings should be discussed in detail.

Any significant cash flow transactions should be discussed. Refer to section 4010 for examples of such transactions.

If shortfalls exist, discuss on the ''Cash Flow Statement (Parent)'' page. For example, if the parent has a deficit cash flow provided by its own operations (as is often the case), discuss how the parent offsets (or plans to offset) the deficit. If the question is not applicable, state ''NA.''

If the BHC must incur additional debt in order to sustain its dividend payments to shareholders, discuss this in detail on the ''Cash Flow Statement (Parent)'' page.

To the extent that the accrual method of accounting is used, income and expense items should agree with the figures on the ''Comparative Statement of Income and Expenses (Parent),'' and between balance sheet periods, the ''Statement of Changes in Stockholder's Equity (Parent)'' pages and the ''Income from Subsidiaries'' for the fiscal year are as follows:

1. Dividends, and management and service fees from subsidiaries should agree with those on the ''Comparative Statement of Income and Expenses (Parent)'' and the ''Income from Subsidiaries'' pages;
2. Interest income should agree with the amounts reported on the ''Comparative Statement of Income and Expenses (Parent)'' and the ''Income from Subsidiaries'' pages;
3. Interest expense should agree with the amounts reported on the ''Comparative Statement of Income and Expenses (Parent)'' page;
4. Salaries and employee benefits should be the same as those reported on the ''Comparative

Statement of Income and Expenses (Parent)'' page; and

5. Dividend payments made by the parent should agree with those reported on the ''Statement of Changes in Stockholder's Equity (Parent)'' page.

Other increases and decreases in cash which should agree with changes in balance sheet items on the ''Parent Company Comparative Balance Sheet'' page are:

1. Increases in borrowed funds;
2. Decreases or increases in advances to subsidiaries; and
3. Debt retirement or reductions.

The Parent Company Liquidity Position page is prepared for bank holding companies with consolidated assets in excess of $1 billion and those with substantial debt outstanding, as well as select others at the option of the Reserve Bank. The report schedule provides a structured analysis of all assets and liabilities within predetermined remaining maturity categories. The schedule is designed to place emphasis on remaining maturing assets and liabilities of less than one year.

When the schedule is initially completed, the examiner is provided with an indication of whether the parent company has an adequate cushion of short-term liquid assets within the 0 to 30 days and the 0 to 90 days categories to cover short-term liabilities, or whether a pattern of short-term funding gaps exist. Following adjustments, if any, to maturing assets or liabilities, the resulting schedule sets forth a framework for observing funding mismatches, thus serving as tool for assessing the parent company's overall liquidity position.

A net positive gap is expected in the 0 to 30 days category to show the parent's ability to ride out a temporary market disarray. Similarly, a cumulative positive position is expected in the 0 to 90 days categories, despite any deficiency within the first 0 to 30 days category. A failure to satisfy those conditions requires the examiner to address the deficiency within the ''Examiner's Comments'' page. Results of the analysis are to be discussed in the parent company section on the ''Analysis of Financial Factors'' page in the inspection report.

The report schedule is prepared:

1. To determine whether the bank holding company is avoiding funding strategies that could undermine public confidence in the liquidity or stability of their banks; and
2. To evaluate the holding company's ability to meet its maturing obligations, covert its assets with minimal loss, obtain cash from other sources, or roll over or issue new debt obligations;
3. To determine whether the level of the parent's liquid assets is sufficient to cover its short-term obligations;
4. To analyze the contractual maturity structure of its assets and liabilities and to estimate the underlying liquidity of the parent company's liabilities and assets, giving particular attention to interest bearing deposits in and advances to subsidiaries (Note: Parent company advances to subsidiaries should be considered a reliable source of liquidity only to the extent that they fund assets of high quality that can be readily converted to cash);
5. To identify funding surpluses or deficits for specific maturity intervals;
6. To provide an analytical framework for observing funding mismatches in assessing the parent company's overall liquidity position;
7. To provide an analytical tool and a basis for discussion of parent company liquidity with management; and
8. To provide a basis for developing or evaluating existing parent company contingency plans, including any reliable unused back-up lines of credit. (Note: In the event that maturing liquid assets are not sufficient to satisfy short-term obligations, primarily in the 0 to 90 days categories, and the parent company has no contingency plan to cover mismatches (shortfalls) in the under 1 year categories, the parent company must be requested to develop such contingency plans that must include standby facilities that will be reliable during times of financial stress. For those BHCs with less than satisfactory parent or consolidated supervisory ratings (3 or worse), or any BHC subject to serious liquidity or funding pressures, those BHC's must include in their contingency plan specific plans to reduce or eliminate entirely their outstanding short-term obligations.)

The information for the schedule should be obtained from the parent company's balance sheet for the contractual maturing amounts of assets and liabilities, and slot the amounts into the five maturity categories depicted.

While analyzing the contractual maturities of the assets and liabilities, the examiner must consider the underlying liquidity of the parent's intercompany advances and deposits and the extent to which they fund high quality assets that can be readily converted into cash.

The examiner should refer to the Manual's funding sections 2080.0 to 2080.6 and sections 4010.0 to 4010.2 that address parent company cash flow and liquidity.

The report page data should be entered as of the inspection report financial statement date. The examiner may, at his or her option, incorporate the schedule into the inspection report to substantiate or clarify particular judgements. Assets should be recorded net of any allowance (contra asset) accounts.

The examiner should assess the contractual maturity structure of the parent company's balance sheet by preparing the schedule according to the parent's maturing assets and liabilities. The scheduled can be adjusted to better appraise the parent company's liquidity position by analyzing interest bearing deposits with bank subsidiaries and advances to subsidiaries. The ''Other Assets'' may be sub-categorized within the additional space provided. The completed schedule may be used as a basis of discussing parent company liquidity with management. The examiner should comment on the findings on the ''Analysis of Financial Factors'' page in the inspection report (whether or not the schedule is included in the report).

The total of each asset account should equal the respective assets as listed on the ''Parent Company Comparative Balance Sheet'' for the inspection report financial statement date, net of any separately listed allowance or contra asset account balances or any adjustments for market valuations. The total of each liability account should equal the respective liabilities as listed on the ''Parent Company Comparative Balance Sheet'' as of the inspection report financial statement date.

This report page is included in all reports when assets are classified and written up. For inspections of bank holding companies with less than $150 million in total assets, it is to be included in the Core section of the report. The information reported represents analyses and conclusions for the classification of the parent's assets and identifies all of the nonbank subsidiary's classified assets. Refer to the instructions for the ''Summary of Consolidated Classified and Special Mention Assets, and Other Transfer Risk Problems,'' Core page 7, for a discussion of classification standards.

The purpose of the report page is to—

- determine the risk involved in the parent's activities,
- determine the adequacy of reserves,
- disclose problem assets requiring management's attention, and
- aid in the analysis of the condition of the nonbank subsidiary(ies).

The information is obtained by an evaluation of the parent's assets and the assets of nonbank subsidiaries. For nonbank company assets, the information is obtained through examining the loan and lease portfolios, and reviewing credit files, loan reviews, past-due lists, credit analyses, and watch lists prepared by the holding company.

Any asset classified doubtful or loss requires a write-up unless the amount is insignificant to the company's operations. *Where asset reviews are undertaken, the examiner should note at which entities the asset reviews were performed, and their level of coverage.* Any classified asset that is challenged by management also requires a write-up.

Loan write-ups may extend across the entire page. At a minimum, show the total amount of extension of credit booked by the parent, name of debtor, name of guarantors, collateral, amount of classification in appropriate category, date originated, maturity, purpose, and where deemed necessary, a short write-up giving the reason for the classification. Also identify any participation with a subsidiary, including the subsidiary's name and amount held by the subsidiary.

Nonbank loans classified substandard may be listed alphabetically with no write-up required, unless the holding company management disagrees with the classification. For other nonbank assets classified substandard, some minimum comment is necessary. For example, the examiner may make one general comment concerning the deficiencies of several credits or other assets listed.

Any nonbank subsidiary loan classified doubtful or loss, where the amount classified exceeds the lesser of $100,000 or 5 percent of the subsidiary's total assets, should include a brief write-up stating the reason(s) for classification. However, at the discretion of the examiner, any doubtful or loss classification may be the subject of a write-up.

In the case of nonbank subsidiaries such as consumer finance companies where there are relatively small amounts and a large volume of accounts involved, the use of ''bulk classification'' by degree of delinquency may be more desirable than listing each loan individually. The examiner may provide write-ups on any classified nonbank subsidiary asset deemed appropriate.

The classification totals should agree with ''Examiner's Comments,'' and/or ''Analysis of Financial Factors'' pages. Any major asset problems may be discussed on the ''Examiner's Comments'' or ''Analysis of Financial Factors'' pages and should be cross checked.

This FR 1225 report page presents consolidated financial statement data (a condensed balance sheet and income data) for the lead bank and any other subsidiary bank or banks (that is, subsidiary banks that have consolidated assets of $150 million or more) or for those bank subsidiaries that exhibit conditions warranting special supervisory attention (that is, rated composite 3, 4, or 5 under the Uniform Interagency Bank Rating System). The summary of the examiner's comments and other important data extracted from the latest report of examination are incorporated into the analysis of the bank component of the BOPEC rating on the "Analysis of Financial Factors" page. The summary is incorporated when a bank subsidiary comprises 10 or more percent of consolidated assets and/or when a bank subsidiary evidences material financial deficiencies or other characteristics that should be brought to the attention of the bank holding company's board of directors including noted bank violations.[1] As banking assets make up the majority of the assets of the holding company, the condition of the larger banks and special supervisory attention banks may have a significant impact on the condition of the consolidated organization.

The financial statements should be requested in the officer's questionnaire. Balance-sheet and income data can be obtained from the reports of condition, income, and dividends of the subsidiary banks.

Provide a condensed balance sheet as of the inspection date and a statement of income. The income data should be presented in a comparative columnar format and should include total operating revenue, total operating expenses, net operating income, applicable income taxes, net securities gains or losses, and net income. The balance-sheet and income data, while condensed, should provide detail to permit analysis of earnings and capital. Where any past or potential problems exist, the examiner may include more detailed statements to support comments presented.

All pages should bear the same "Bank Subsidiaries" page number, except that the number should be suffixed with a −1, −2, −3, etc., to reflect the subsequent "Bank Subsidiaries" pages.

The FR 1241 "Bank Subsidiary" report page is used for the lead bank subsidiary when its assets are less than $150 million.

The following items should be checked to make certain that—

1. advances from the parent company agree with the "Investment in and Advances to Subsidiaries" page;
2. the holding company's proportionate share of the capital accounts reconciles with the investment shown on the "Investment in and Advances to Subsidiaries" page;
3. external (unaffiliated) debt shown agrees with that on the "Unaffiliated Borrowings" page;
4. net income reconciles with the sum of equity in undistributed earnings and dividends on the "Income from Subsidiaries" pages, in proportion to the holding company's percentage of ownership; and
5. any relevant comments made on the "Bank Subsidiaries" pages agree with Core page 1, "Examiner's Comments and Matters Requiring Special Board Attention."

1. In determining the subsidiary banks that require write-ups, examiners should be mindful of the effect that the cross-guarantee provisions of FIRREA can have on nontroubled bank subsidiaries.

For each direct nonbank subsidiary (and its significant subsidiaries not consolidated in its statements), a summary is to be provided of its history, activities, classifications, and risk exposure. Nonbank subsidiary pages consist of ''Nonbank Subsidiary,'' ''Nonbank Subsidiary Financial Statements,'' and ''Nonbank Assets Subject to Classification.'' Each subsidiary should be presented as a ''unit.'' Successive subsidiaries should be sequentially presented (for example, 18a, 18b, etc.). The information provided on the report page should aid in the determination of permissibility of activities and locations, and the evaluation of the subsidiary's asset quality.

1. Provide the proper name of the organization, location, date of approval, date of acquisition or establishment, date activity commenced, statutory authority, and approved branch office locations should be obtained from Reserve Bank records, presented, and verified with the holding company's records. Note the date of approval for each activity and office, if applicable.

2. For going concerns acquired by the bank holding company, state the date acquired. For de novo subsidiaries, state the date established .

3. For de novo subsidiaries, state the date activity commenced. Indicate if the BHC has received approval for any de novo activity that has not yet been commenced. Identify any approved activity for which authority has expired.

4. Number 6 refers to the exemptive provision (statutory authority) of the Bank Holding Company Act relied upon to continue to engage in the activity. If section 4(c)(8) of the act is indicated, also provide the corresponding reference to section 225.25(b) of Regulation Y to indicate the specific activities.

5. Provide the city and state location for each branch; however, if the subsidiary has a great number of branches (for example, a consumer finance subsidiary), the examiner may present only the number of offices located in each state or foreign location.

6. For the history and description section, summarize the activities in which the company is engaged and discuss how it has expanded its operations (de novo or by acquisition). Discuss any violations that may have been uncovered.

7. Prepare a written risk assessment of each active nonbank subsidiary, addressing the financial and managerial concerns outlined below.[1] This assessment is to identify subsidiaries with a risk profile that warrants an on-site presence. In formulating this assessment, the examiner should consider all available sources of information including, but not limited to—

- findings, scope, and recency of previous inspections;
- ongoing monitoring efforts of surveillance and financial-analysis units;
- information received through first-day letters or other pre-inspection communications;
- regulatory reports and published financial information; and
- reports of internal and external auditors.

The risk assessment should address each nonbank subsidiary's funding risk, earnings exposure, operational risks, asset quality, capital adequacy, contingent liabilities and other off-balance-sheet exposures, management information systems and controls, transactions with affiliates, growth in assets, and the quality of oversight provided by the management of the bank holding company and nonbank subsidiary. Examiners are expected to document their assessment of the overall risk posed by each nonbank subsidiary on this report page or equivalent inspection workpaper. See SR-93-19.

The examiner should make certain that the classifications and valuation reserves summarized for the nonbank subsidiaries agree with totals on either the ''Summary of Consolidated Classified and Special Mention Assets, and Other Transfer Risk Problems'' page or the ''Parent Company and Nonbank Assets Subject to Classification'' page.

1. The assessment of nonbank activities in large, complex organizations may be focused on an intermediate-tier company with oversight responsibility for multiple nonbank subsidiaries.

This page presents a condensed statement of condition for credit extending and special supervisory attention nonbank subsidiaries (and others at the examiner's discretion) as of the inspection date, and income data for the latest fiscal year and the year-to-date. The purpose of the report page is to aid in the analysis of the condition of each nonbank subsidiary and in the analysis of its effect on the consolidated company. The page is completed for all credit extending subsidiaries and may be completed for any other subsidiary deemed appropriate.

Financial statements should be requested in the officer's questionnaire. In the case of larger subsidiaries other financial information may be obtained from the F.R. Y–6, the SEC Form 10-K, published reports to stockholders and reports filed with professional associations. Details relevant to the financial statements can be found by reviewing various accounting records.

The balance sheet should be structured to provide sufficient detail for meaningful analysis, including specifics on valuation reserves and stockholders' equity. Income data should also be provided for the latest fiscal year plus the year to date (i.e., total revenue, net operating income, net income, rates of return). Provide a condensed income statement for the year to date if considered necessary.

The examiner should ascertain that:

1. Advances from the parent agree with the ''Investment in and Advances to Subsidiaries'' page;
2. The holding company's proportionate share of the capital accounts reconcile to the investment shown on the ''Investment in and Advances to Subsidiaries'' page;
3. External debt reported agrees with the information reported on the ''Liquidity and Debt'' Confidential page ''C''; and that
4. Net income reconciles with equity in undistributed earnings and dividends paid on the ''Income from Subsidiaries'' pages, in proportion to the holding company's percentage of ownership.

This page presents the fidelity and other indemnity insurance coverage of the holding company and its subsidiaries. Refer to section 2060.5 for related information. The report page is used to provide a summary as to whether:

1. The parent and nonbank subsidiaries have been insured against the potential for significant losses by maintaining proper and sufficient insurance;
2. A comprehensive review of the insurance program is conducted periodically by management and at least annually by the board of directors and entered into the minutes;
3. A determination can be made as to which entity(ies) is responsible for paying the premiums and if the manner in which such payments are allocated is equitable among the affiliates that receive the coverage benefits; and
4. Procedures are in place to assure that claims are filed promptly.

The information on insurance coverage is usually available from an ''insurance officer'' and from a review of insurance policies during the inspection. The examiner should conduct a review of insurance coverage with the ''insurance officer.'' In summarizing results, the examiner should indicate if any nonbank subsidiary is covered under a separate policy or if it is not covered. Also, it should be stated whether the policy is maintained by the bank and whether the BHC and nonbanks are covered by the bank's policy. The method used to allocate the cost of insurance to the subsidiaries should also be provided.

The comments detailed on the report page should be consistent with summarized comments on the ''Policies and Supervision'' page and the ''Other Supervisory Issues'' page, item 7, if included in the report. Any noteworthy deficiencies in the insurance program may be included on the ''Examiner's Comments'' page at the examiner's discretion.

This report page consists of topics dealing with litigation and commitments, the supervisory reports, intercompany transactions and other topics of supervisory concern.

The report page includes questions that are worded to evoke a ‘‘yes’’ response, or if there are no problems in a particular area, a ‘‘no’’ response. If there are any deviations therefrom, responses are required. Positive responses as to either the adequacy of the insurance or audit programs should only be accompanied by a reference to the appropriate inspection report page that addresses the topic. For additional guidance on answering the questions on this inspection report page refer to the ‘‘Other Supervisory Issues’’ FR 1241 report page instructions.

5010.35.1 INTERCOMPANY TRANSACTIONS (QUESTIONS 1)

This question inquires as to the existence of significant intercompany transactions or diversions of bank income subject to adverse comments. This question guides the examiner when documenting the review of compliance with Board policy, statutes and regulations regarding various kinds of intercompany transactions.

For information on diversion of bank income, review management and service fees charged the bank and any compensating balances maintained by the bank on behalf of affiliates indicated on the ‘‘Comparative Statement of Income and Expenses (Parent)’’ and the ‘‘Commercial Paper (Parent)’’ pages, respectively. Comments on section 23A considerations may be found by a review of bank examination reports. The examiner may refer to Manual 2020.6 (management and service fees) for instructions on examining for diversions of bank income. For information on examining for 23A and 23B violations, see Manual section 2020.1 (transactions between affiliates) and the other Manual intercompany transactions sections 2020.2–2020.7.

Violations of section 23A and 23B of the Federal Reserve Act and section 106(b) of the 1970 Amendments to the Bank Holding Company Act may be summarized on the ‘‘Examiner’s Comments’’ page and listed on the ‘‘Violations’’ page with the reader referred to this page for detail. If the examiner includes comments concerning other intercompany transactions on Core page 1, ‘‘Examiner’s Comments,’’ the information should be cross-checked.

5010.35.2 COMPENSATING BALANCES (QUESTION 2)

If a subsidiary bank is not adequately compensated for maintaining compensating balances at another institution for debt advances to the holding company, provide:

1. The average collected and book balance or the range of the balance;
2. Any arrangement whereby the loan or line of credit agreement between the creditor bank and parent contains a requirement to maintain a correspondent account; and
3. Comments as to whether the subsidiary bank is reimbursed for maintaining the compensating balance.

Refer to Manual section 2020.4 (compensating balances).

5010.35.3 INTERCORPORATE INCOME TAX PRACTICES (QUESTION 3)

Information on intercorporate tax practices may be obtained from the accounting or comptroller’s department. Manual section 2070.0 (taxes) may be referred to for information on examining intercorporate tax transactions which includes the Board’s intercorporate tax policy statement of September 20, 1978.

In addition to the above references, examiners should be aware that whenever there is a consolidated income tax return filed, it is important that a formal tax agreement exists between the parent and each subsidiary (approved by each board of directors). Examiners should encourage management to prepare such an agreement if not already in place.

Board policy states that taxes paid by a subsidiary bank to its parent should not be in excess of what the bank would pay if it filed on a separate entity basis. However, certain adjustments, in particular the allocation of tax benefits in a consolidated return, may result in higher payments than would have been made had the bank been unaffiliated (i.e., the surtax exemption must be allocated between organizations filing a consolidated return whereas an entity filing alone could use the entire exemption). The Board normally would regard such adjustments (that result in amounts in excess of filing alone) as acceptable. The Board does not wish to prescribe the tax accounting methods to be used by BHCs. However, the Board does require that those methods employed give bank subsidiaries equitable treatment.

The examiner should comment whenever any of the following has occurred:

1. A subsidiary has been required to make tax payments to its parent that significantly preceded the date the consolidated tax payments are paid to IRS. (In general, ''significantly'' means not in excess of five business days.)
2. A subsidiary bank is due a tax refund due to a fiscal net loss on a taxable basis (or due to other tax credits) and the parent has not refunded to the bank taxes paid by the bank to the parent in previous tax periods.
3. The subsidiary bank has passed up deferred income tax liabilities to the parent along with an equivalent amount of cash or earning asset. Such transactions must be reversed by a reinstatement of the deferred tax on the books of the bank, along with the transfer by the parent of an equivalent amount of cash or appropriate earning asset.

5010.35.4 TIE-IN ARRANGEMENTS (QUESTION 4)

As for tie-in arrangements, see Manual section 3500.0 (tie-in considerations). This Manual section provides information on examining for impermissible tie-in arrangements. Information on tie-in arrangements is available from BHC and nonbank subsidiary management and may also be found by reviewing standard lending agreements and manuals.

5010.35.5 INSIDER TRANSACTIONS (QUESTION 5)

Consider:

1. The policy in regard to extensions of credit by a bank holding company or its nonbank subsidiaries to the BHC officials (executive officers, directors or ''more than 10 percent'' shareholders) or the BHC officials' interests in the organization;
2. Prohibitions on bank extensions of credit contained in the Financial Institutions Regulatory and Interest Rate Control Act of 1978; and
3. Whether the bank holding company has a conflict of interest statement or business ethics policy that has been distributed to employees.

If there are insider transactions subject to comment, list the parent and nonbank subsidiary extensions of credit to BHC officials. Also, comment on the compensation to the officials. See Manual sections 2050.0, 2110.0, and 5010.36.

5010.35.6 LITIGATION (QUESTION 6)

A ''yes'' response to this question would require a summary of any litigation involving the parent bank holding company and the bank and nonbank subsidiaries, which could have a significant effect on the holding company. The purpose of this question is to aid the examiner in the analysis of the financial condition of the holding company by determining if any pending litigation poses a threat to the financial condition of the BHC.

Any information on law suits should be requested in the officer's questionnaire. Information on litigation which may have a significant impact on the company is often included in the published annual report to stockholders or in the SEC Form 10-K.

Comments on litigation should be presented in narrative form summarizing the details of the lawsuit, including, if possible, the opinion of the holding company's counsel as to the possible outcome of the suit. Generally, include only suits representing more than 10 percent of the holding company's stockholders' equity capital. Discussion of immaterial litigation should be avoided.

Any litigation which may have a significant effect on the bank holding company may be summarized on the Examiner's Comments, Core page 1, at the discretion of the examiner. Also, any litigation which, in the opinion of management or counsel, is expected to result in a significant liability should be noted on the ''Contingent Liabilities (Parent)'' page.

5010.35.7 INSURANCE PROGRAM (QUESTION 7)

See Manual sections 2060.5 and 5010.33.

5010.35.8 AUDIT PROGRAM (QUESTION 8)

A negative response to this question will result from application of the inspection instructions found in Manual sections 2060.1 and 5010.34. Comments responding to this question should be confined to briefly summarizing any audit program deficiencies and should reference any detailed information provided on other report pages.

5010.35.9 CREDIT QUALITY REVIEW PROGRAM (QUESTION 9)

This question refers to the examiner's review of the BHC's internal loan review program. A negative response would result from the examiner's use of the inspection instructions and procedures found in Manual section 2060.6.

5010.35.10 SUPERVISORY REPORTS (QUESTION 10)

A ''yes'' response with regard to this topic would result in providing information on the timeliness and accuracy of the bank holding company's submittal of required reports, such as the FR Y–6, Y–8 and the Y–9's to the Reserve Banks. If the bank holding company is consistently late in filing its reports or if there are repeated discrepancies that need correction, it could be indicative of operational deficiencies or a lack of managerial direction within the bank holding company.

Information on the timeliness and accuracy of reports must be obtained from the Reserve Bank unit handling the reports and by verifying selected items to corporate records. If reports are routinely filed late or inaccurately, the reason and the measures the bank holding company may be taking to eliminate the problem should be stated on this inspection report page.

5010.35.11 OUTSTANDING COMMITMENTS TO THE BOARD OF GOVERNORS (QUESTION 12)

This question reminds the examiner to appraise the bank holding company's compliance in fulfilling commitments made to the Board or the Reserve Bank. Thus, if there are any commitments outstanding which the holding company has made to the Board or the Reserve Bank, appropriate comments should be provided on the page.

Each Federal Reserve Bank is required to report to the Board's Division of Banking Supervision and Regulation on a semi-annual basis the status of unfulfilled commitments. The examiner should review this Reserve Bank report before beginning the inspection.

Commitments should be summarized presenting the nature of the commitment, the date the commitment was made, and, if applicable, the time frame in which it must be fulfilled. If the time frame has expired, or if an extension is deemed necessary to fulfill the commitment, details must be presented. The examiner may choose to make a reference to the unfulfilled commitment on the ''Examiner's Comments'' Core page 1, if considered appropriate.

The Financial Institutions Regulatory and Interest Rate Control Act of 1978 (FIRA), as amended by FDICIA, accompanied by the Board's complimentary Regulation O, governs *bank* extensions of credit to insiders. With the passage of FDICIA and the complementary revision of Regulation O, there is the possibility that there will be an increase in the volume of parent company and nonbank subsidiary extensions of credit to BHC officials and their related interests. The report page presents information on parent company and nonbank extensions of credit to insiders, as well as parent company and nonbank subsidiary investments in and loans on stock or obligations of BHC officials' related interests. Examiners must reference Manual section 2050.0 to complete this page.

This report page is intended to identify extensions of credit to BHC officials so that those credits may be reviewed for propriety and compliance with the policies of the BHC and Manual section 2050.0. Although *Regulation O applies only to bank extensions of credit*, for BHC inspection purposes, definitions contained in Regulation O shall be used by System examiners in order to provide a uniform, comparable approach to reviewing extensions of credit to BHC officials.

The information requested on the report page should be requested in the officer's questionnaire. Other sources may include the annual report to shareholders, the FR Y–6 and filings with the Securities and Exchange Commission.

BHC examiners should review Manual section 2050.0 and Regulation O, and should be familiar with the definitions contained in the regulation. Examiners are asked to identify such credits for in-depth review and analysis. Although Regulation O applies specifically to extensions of credit by banks, and not the parent or nonbank subsidiaries, examiners may criticize a BHC's or nonbank subsidiary's direct extensions of credit to BHC officials or their related interests as an unsound practice or may criticize a specific loan for credit reasons. *Such extensions of credit are not to be cited as violations of Regulation O.*

During a BHC inspection, BHC officials should be made aware that information necessary for the completion of this page is being collected to evaluate practices, policies, or particular credits, but that FIRA and Regulation O apply exclusively to bank extensions of credit.

Section 215.4 of Regulation O entitled ''General Prohibitions'' sets forth various restrictions on bank extensions of credit to BHC officials. In general, if the BHC examiner reviewing BHC and nonbank subsidiary direct extensions of credit to BHC officials and their related interests concludes, after consultation with counsel for the Reserve Bank, that the extension of credit would not have been in compliance with section 215.4 had it been a bank extension of credit, the examiner may conclude that it is appropriate to criticize the practice or the loan. If it is concluded that the BHC or nonbank subsidiary extended the loan in order to circumvent the restrictions on bank extensions of credit, comments to that effect should be incorporated onto the ''Other Supervisory Issues'' page or a ''Continued'' page. Such comments may be also summarized on page 1, ''Examiner's Comments'', at the discretion of the examiner based on the degree of materiality, severity and impact.

Specifically, section 215.4 of Regulation O (in part) requires bank extensions of credit to BHC officials not to be on preferential terms, not to have more than the normal risk of repayment, and over certain dollar amounts to be approved by the bank's directors. In addition, it requires bank extensions of credit to executive officers, principal shareholders, and their related interests not to exceed the bank's legal lending limit to any such individual and his/her related interests.

In reviewing BHC and nonbank extensions of credit to ''related interests,'' note that a related interest is defined in section 215.2(k) of Regulation O as ''a company that is controlled by a person . . .'' The definition of ''company'' for purposes of Regulation O specifically excludes any ''insured bank.'' However, for purposes of completing these report pages, and evaluating the propriety of BHC and nonbank extensions of credit to (and investments in) ''related interests'' of BHC officials, ''related interests'' shall include ''banks.'' Therefore, a BHC or nonbank direct extension of credit to (or investment in) a BHC official's ''related interest'' that is itself a bank (other than a subsidiary bank of the subject BHC), should be reported.

For purposes of this page, ''direct'' extensions of credit represent obligations of the BHC official or related interest, alone or as co-maker while an ''indirect'' extension of credit includes a BHC official's or a related interest's endorsement or guarantee of an extension of credit to a third party, and obligation's to the BHC official's immediate family (spouse, all minor children, and all children, including adults, residing in the individual's home). BHC and nonbank extensions of credit to a BHC official who serves in two or more capacities, i.e., director and executive officer, should only be presented once.

In completing the "Schedule," the examiner may select the cut-off amount used to determine which items are listed individually based on materiality. However, any extension of credit (or group of credits) to an individual BHC official and his/her related interests that would have exceeded the subsidiary bank's lending limit had it been made by the bank, should be listed individually. (In multibank holding companies, use the banks' aggregate lending limit.)

In listing "Terms" within the "Schedule," include at a minimum interest rate and date of maturity. "Comments" are intended to include a brief description of any collateral, endorsements, the purpose of the loan, the nature of the borrower's relationship to the lender if not self-evident, and status of repayment if delinquent or classified.

Identify the source and cost of funds used by the BHC to extend the loan. Any adverse affect to the BHCs net income should be commented on.

Extensions of credit should be consistent with policies summarized on the "Policies and Supervision" page. Otherwise, additional comments might be warranted.

The purpose of this report page is to present a brief analysis of the interest sensitivity of assets and liabilities on the inspection date and to further support the analysis in the form of ratios similar to a current ratio and a net working capital to total assets ratio. Positive or negative gaps within maturity buckets are gathered in the form of cumulative gap totals. The analysis can be prepared for each level of the organization.

Such an analysis is designed to determine whether maturing interest sensitive assets match maturing interest sensitive liabilities on a 1 to 1 basis within specified maturity ranges and on a cumulative basis over time.

The information for the report page can be gathered from financial management maturity analyses and interest sensitivity reports prepared by the bank holding company's management. A limited amount of maturity information on interest sensitive assets and liabilities may be obtained from Bank Call Reports, Bank Holding Company Y reports, Bank Performance Reports, and BHC Performance Reports, and can be used if the inspection ''as of'' date is the same as the date of these reports.

From information collected, list interest sensitive asset totals and liability totals within the maturity buckets provided for the consolidated entity. The maturity ranges may be adjusted to or expanded to coincide with interest rate sensitivity reports generated by the bank holding company management.

Next, subtract the liability totals from the asset totals to get the ''Gap'' totals. For each maturity range beyond 91 days, add the next repricing interval ''Gap'' total to the previous ''Cumulative Gap'' totals to obtain the repricing interval's cumulative gap.

To determine the ratio of interest sensitive assets to interest-sensitive liabilities, use the cumulative gap for the denominator. Extend the percent out to at least two decimal places.

Provide narrative analysis for any maturity period or cumulative negative or positive gap positions, stating what measures will be taken by management to address any adverse gap positions.

Procedures for Inspection Report Preparation (Page—Treasury Activities/Capital Markets) Section 5010.38

This report page presents generalized questions for the examiner to answer on treasury activities and capital markets. This page must be included in inspection reports prepared for bank holding companies that have significant exposure in the capital markets. Specific guidance can be found in section 2125.0, in the Federal Reserve System's *Trading Activities Manual*, and in SR-93-69, December 20, 1993. Procedures for inspecting and preparing the written analysis should be based on this supervisory guidance. In banking organizations with national or state nonmember lead banks and where capital markets activities are conducted exclusively at the subsidiary bank, examiners should coordinate the collection of the information included on this page with the lead bank supervisory agency.

Procedures for Inspection Report Preparation (Confidential Page A—Principal Officers and Directors) Section 5010.40

The purpose of this report page is to identify directors and principal officers and determine the level of participation and responsibility in the affairs of the holding company, and to identify outside relationships in order to determine conflicts of interest. The page contains the names of the principal officers of the company and their position with other subsidiaries. This page also presents the names of directors, the number of years they have served in that capacity, their year of birth (to possibly assess management's plans for succession), regularity of their attendance at directors' meetings, and principal outside employment. Note if any director is also a director of a Federal Reserve Bank or branch.

The directors and principal officers' fees, compensation and other benefits information is also to be obtained and retained in the workpapers. If desired by the Reserve Bank, such salary, bonus, benefits, and other remuneration information may be included on this page. Criticism of directors' fees should be carefully considered.

The directors' ownership information (i.e. address of each director and the number of shares owned) is also to be obtained and may also be reported or retained in the workpapers. If the holding company has an advisory board or honorary directors, the data on these persons may be included on the report page at the examiner's discretion.

All information on principal officers and directors such as year of birth, responsibility and compensation, etc. should be requested in the officer's questionnaire. Attendance data should be available from the board of directors' minutes. Such information may also be contained in reports to shareholders, FR Y–6, proxy statements and SEC filings.

The directors and principal officers should be listed alphabetically with their city and State of residence indented immediately below their names. If appropriate for mailing purposes, show each director's mailing address.

The principal officers and directors are to be listed in order of rank, and alphabetically where officers have identical titles. For directors and principal officers, membership on principal committees of the board should be coded and placed immediately after the name on the same line (i.e., E = Executive, A = Audit). If a director has been elected since the last inspection, the date of election should be shown immediately after his name. For example:

John Smith elected 4-1-x1

The officer and director positions held with subsidiaries should be kept as brief as possible, utilizing abbreviations established on the "Structure and Abbreviations" Core Page 3. List only major positions if routinely assigned to staff of all subsidiaries.

A brief summary of benefits provided to officers and employees (i.e., pension plans, life and health insurance) may be presented at the bottom. Such information can assist in determining whether the principal officers appear to be adequately or overly compensated.

Special financial arrangements for specific officers may also be noted. Such arrangements would include salary contracts, unusual bonuses, fees or expense allowances, stock options, deferred compensation, and exclusive use of real estate, automobiles and airplanes.

When indicating occupation or principal business affiliation of directors, use concise, descriptive designations instead of general notations such as "merchant" or "industrialist." If the director is an officer or principal in a firm, show also the nature of the business in parentheses (e.g., law firm, CPA, pharmaceutical manufacturer, etc.).

The examiner should verify that the directorship is in compliance with Regulation L or R and that the number of directors is consistent with the corporations' bylaws. The examiner should also indicate the regular schedule of directors' meetings at the bottom of the report page to provide the Reserve Bank with information needed to plan attendance at board meetings.

Examiners should be careful to use the same names and titles of officers when referring to the individuals elsewhere in the report.

In general, this report page presents pertinent information that is deemed confidential by the Reserve Bank and available to regulatory authorities. The report page is used to discuss and assess, confidentially, the going-concern operating results and the prospects for resolving any problems or areas of concern. The report page should be also used to discuss compliance problems relating to statutory, regulatory, or administrative provisions cited within the core or other open sections of the report. The potential for any improvement or weakening in economic conditions should also be discussed to the extent they have a bearing on earnings potential.

The specific information to be provided on the report page is—

1. information on the organization's near-future financial prospects, giving particular consideration to debt servicing and the likelihood of improving any current problems;

2. an assessment of holding company management as to the experience and qualifications of principal personnel when relative to the assessment, and a listing of subsidiary bank ratings, effective examination dates, and type and scope of examinations;

3. the examiner's concise assessment of management's oversight of the BHC's policies and supervision of subsidiaries with respect to the level of control and supervision exercised over subsidiaries (see sections 2010.0 to 2010.4) should be discussed (An evaluation of the bank holding company's recognition and control of exposure to risk should also be provided (see section 2160.0), as well as an evaluation of management information systems (MIS) based on the guidance found in sections 2060.0 through 2060.6.);

4. a discussion of the reasons for the component ratings and overall BOPEC rating assigned;

5. an analysis of chain banking organizational structure (The examiner must determine whether the BHC is a member of a *chain banking organization*. A chain banking organization may be defined generally as a collection of independent banking organizations that are controlled by the same individual, family, or a group of individuals closely associated in their business dealings.);

6. a listing of individuals or groups that control more than 5 percent of the BHC's outstanding stock (Discuss any significant changes in ownership. A review of ownership is to include a determination as to whether an individual or group of shareholders exercise significant influence over the BHC. It should also include a discussion of fiduciary holdings of the parent company's stock and convertible debt of the BHC's subsidiaries.);

7. a presentation of confidential information relating to the components of the BHC rating system, avoiding repetition by cross referencing report pages in the open section; and

8. examiners' comments on any other supervisory concerns or aspects of the BHC's condition warranting confidential treatment. Comments on any violation and/or a BHC's unsafe and unsound practice should be included with any recommendations for Federal Reserve administrative action. Any plans of the holding company which are considered to be of a confidential nature should also be discussed.

Financial-analysis comments on the bank holding company organization (that is, BOPEC components, not the ratings) that are not of a confidential nature are to be discussed on the Analysis of Financial Factors core page 4.

The date and type of examination and assigned rating can be obtained directly from the latest examination report of each subsidiary bank. The other information is to be derived from discussions with senior management.

The information pertaining to ratings (CAMELS) and ratios of the banks is to be presented in columnar form with the banks listed as they appear on the organization chart. Also include any comment on the bank(s) deemed to warrant confidential treatment.

The examiner is expected to review and use the examination ratings of the other federal agencies where appropriate; however, if substantive differences of opinion exist as to the bank's composite rating, adjustments to the rating may be made and footnoted accordingly.

The examiner should make certain that the bank names or abbreviations are consistent with the organization chart and other tables in the inspection report. Any ratios or comments used in the rating analysis should be checked to corresponding areas in the open section.

This page provides a ‘‘snapshot’’ picture of the parent company’s short-term gap position as it relates to the amount of commercial paper compared to net short-term GAP within repricing maturity categories and also the cumulative GAP position within the maturity buckets. The page provides summary information of aggregate data from the ‘‘Commercial Paper (Parent),’’ ‘‘Parent Company Liquidity Position’’ and the ‘‘Unaffiliated Borrowings’’ pages or workpapers.

The lower portion of the schedule provides details on unaffiliated borrowings such as the amount and types of external indebtedness of the parent and its subsidiaries. Information regarding various debt covenants such as cross default clauses, collateral information and negative covenants can be included.

The purpose of the page is to aid in evaluating the company’s ability to service its debt and to operate within the constraints of debt restrictive covenants. It also aids in evaluating the appropriateness of the uses of the proceeds of the organization’s borrowings.

Information for the source report pages or workpapers required for an analysis of parent company liquidity, commercial paper and other short-term debt, and long-term unaffiliated borrowings should be requested in the officer’s questionnaire or can be obtained from the BHC’s accounting department. Totals should be brought forth from the ‘‘Commercial Paper (Parent)’’ and the ‘‘Parent Company Liquidity Position’’ pages or workpapers, or reconciled to the general ledger. Footnotes to financial statements in published reports contain much of this information.

For the commercial paper information, derive the totals from the total column on the ‘‘Commercial Paper (Parent)’’ report page, combining the totals for over 91 days maturity. Commercial paper maturity totals should be presented as a line item showing the aggregate outstanding balance netted by any amount held by subsidiaries.

For the ‘‘Long-term Debt’’ portion of the report page, present unaffiliated long-term borrowings in tabular form for (a) the parent, (b) each nonbank subsidiary, and (c) the bank subsidiaries (combined).

For the parent company and each nonbank subsidiary, show the borrower, lender, description of the debt, original amount, origination date, interest rate, maturity date, present outstanding balance, any significant repayment provisions, collateral, use of proceeds, major restrictive covenants and any requirements for compensating balances. In addition, mandatory convertible debt instruments of the parent should be identified and the conversion provisions detailed. In the case of large bank holding companies that have an extensive number of debt issues, detail for each issue may be eliminated at the discretion of the examiner so long as aggregates for similar issues are shown along with ranges for rates and maturities and summary information regarding the other terms of the debt.

For the ‘‘Net GAP’’ and ‘‘Net Cumulative GAP’’ use the respective total amounts (‘‘Net Position’’ and ‘‘Cumulative Excess Deficiency)’’ on the ‘‘Parent Company Liquidity Position’’ report page. Bank mortgage indebtedness may be aggregated at the discretion of the examiner, showing amounts only without other detail. Capitalized lease obligations may be included in that total. For all other bank borrowings, including debentures issued to unaffiliated sources, provide complete detail.

Debt amounts on this page should agree with those shown for the ‘‘Parent Company Comparative Balance Sheet’’ for Core Page 5, the ‘‘Bank Subsidiaries’’, the ‘‘Nonbank Subsidiary Financial Statements’’ pages or workpapers, and the ‘‘Consolidated Comparative Balance Sheet’’ Core page 8 (when adjusted to net intercompany borrowings).

This report page summarizes the examiner participants and their total workdays devoted to the inspection and provides clarification on checklist items where appropriate. Other comments should be directed to planning arrangements affecting the scope of the inspection. When nonbank subsidiaries are inspected, describe the extent of the review of the records. The examiner should cite any special problems encountered which would aid future inspections. Recommendations, suggestions, and information needed to conduct the next inspection should also be included for the next Examiner-in-Charge.

Information regarding planning is limited to the on-site planning of the work to be performed. Comments should be of a professional nature and should be strictly devoted to providing information that can be used in planning and performing an inspection (location and access to specific BHC records, inspection control problems, availability of facilities for staff, key officer and director contacts, information pertaining to the Internal Audit Committee members, internal and external auditors, and etc.)

Information pertaining to the access to, and the storage of, workpapers and any personal information such as lodging, travel arrangements and geographical directions should be confined to the workpapers. Comments not directly related to the on-site conducting of the inspection should be avoided.

The purpose of the confidential report page is to present pertinent information to be used only by regulatory authorities. The page is reserved to summarize internal information derived from Reserve Bank inspection staff that would not be addressed in other confidential report pages. The information reported on this page may also be derived from discussions with senior bank management, workpapers, accounting records, board of directors' minutes, and etc.

Bank names or abbreviations should be consistent with the organization chart and other tables in the inspection report.

Procedures for Inspection Report Page Preparation (Page—Bank Subsidiary (FR 1241)) Section 5020.1

This report page presents financial statement data (a condensed balance sheet and income data) for one-bank holdings companies and other bank holding companies that may have assets of less than $150 million. Place the name of the bank at the top on the line provided. For multi-bank companies, the page may be completed for the lead bank or comparable lead banks and each bank requiring special supervisory attention. The balance sheet and income data should be obtained from the last two calendar year ends and the most recent report of condition, while the examination data should be obtained from the last three examination reports. Refer to 5010.30.

This inspection report page incorporates onto one page a comprehensive list of questions covering many areas of supervisory concern. The questions can be answered with a ''yes'' or ''no,'' or a not applicable response (''N/A''). Detail is required on an exception basis. Provided below are some guidelines to consider for several of the listed questions. Many of the questions are self-explanatory. Some questions (e.g. questions addressing audit and insurance activities) duplicate topics covered by other work papers. The purpose of the duplication and format of the report page is to provide a cross-check within the inspection report to make certain that all relevant areas have been included in the report. If relevant comments have been provided on other report pages in the ''open'' section, the comments need not be duplicated on this report page. Only a reference to the other report page is needed.

5020.2.1 LEVEL OF CONTROL AND SUPERVISION EXERCISED OVER SUBSIDIARIES (QUESTION 1)

Consider:

1. Whether the subsidiaries operate autonomously;
2. The degree of overlap between BHC and bank management;
3. Who sets major policies of the corporation;
4. How the holding company monitors the operation of its subsidiaries;
5. The role of supervision by the parent over the subsidiary banks in formulating the holding company's budget, tax planning, investment policies, internal controls and audits;
6. The extent of control resulting from directors having dual roles and responsibilities at the parent and subsidiary levels; and
7. Whether problems resulting from unqualified directors carry over from the parent to the subsidiaries.

5020.2.2 DIVIDENDS FROM SUBSIDIARIES (QUESTION 2)

Consider:

1. The policy for paying dividends in relation to the earnings and capital needs of the subsidiary. For banks the examiner should rely on the most recent examination report of the federal supervisor; however an independent conclusion must be made.
2. The reasonableness of the parent company's policy for assessing dividends from the subsidiary banks and whether it is being complied with.

5020.2.3 REPRESENTATIONS MADE IN APPLICATIONS TO THE BOARD (QUESTION 3)

Consider:

1. Whether the holding company has complied with all representations and agreements made with the Board. If no such agreements or representations have been made, state not applicable (N/A). The examiner should review transmittal letters for commitments associated with approved applications since the last full scope inspection. The supervisory file maintained by management at each bank holding company should also be reviewed for such agreements or representations.
2. Whether correspondence has been initiated with the appropriate Reserve Bank that provides an appropriate explanation as to why those representations and agreements have not been adhered to.
3. Whether the holding company is complying with any Reserve Bank reply to the holding company's notification.

5020.2.4 COMPENSATING BALANCES (QUESTION 4)

1. If a subsidiary bank is not adequately compensated for maintaining compensating balances at another institution for debt advances to the holding company, provide:
    a. The average collected and book balance or the range of the balance;
    b. Any arrangement whereby the loan or line of credit agreement between the creditor bank and parent contains a requirement to maintain a correspondent account; and
    c. Comments as to whether the subsidiary bank is reimbursed for maintaining the compensating balance.
2. Refer to Manual section 2020.4.

5020.2.5 MANAGEMENT AND OTHER SERVICES PERFORMED FOR SUBSIDIARIES (QUESTION 5)

If applicable, describe the holding company's policy on assessing management and services fees for work performed for the subsidiary bank. Provide comments as to whether the policies and fees are reasonable, and if not, why not. When answering this question, refer to Manual section 2020.6.

The examiner's comments should cover the following: (a) terms of the management or other service agreement or contract, if any, including the basis for charging fees, and the dates of adoption and expiration; (b) whether the boards of directors of each company have approved the agreement or contract; (c) description of the service, personnel providing the service, and whether the personnel are on the subsidiary bank's payroll; (d) conclusion on whether the services are actually being performed as stated and reasonableness of fees charged.

For multi-bank holding companies, the examiner should expand his comments to cover the role of supervision by the parent over the subsidiary banks, their lending and investment policies, budgeting and tax planning, and internal controls and audits.

5020.2.6 INTERCOMPANY TRANSACTIONS (QUESTION 6)

Review parent and nonbank subsidiary borrowings, including overdrafts from the subsidiary bank(s), for the past year and comment on significant transactions. If any extension of credit to affiliates by a bank or other transaction is deemed to violate section 23A or 23B of the Federal Reserve Act, so state. See Manual section 2020.1.

Describe any arrangement whereby the parent or nonbank subsidiary has purchased/sold significant participations or any other assets from/to a subsidiary bank. Also, discuss material transactions not discussed elsewhere in the report.

5020.2.7 INSIDER TRANSACTIONS (QUESTION 7)

Consider:

1. The policy in regard to extensions of credit by a bank holding company or its nonbank subsidiaries to the BHC officials (executive officers, directors or ''more than 10 percent'' shareholders) or the BHC officials' interests in the organization;
2. Prohibitions on bank extensions of credit contained in the Financial Institutions Regulatory and Interest Rate Control Act of 1978; and
3. Whether the bank holding company has a conflict of interest statement or business ethics policy that has been distributed to employees.

If there are insider transactions subject to comment, list the parent and nonbank subsidiary extensions of credit to BHC officials. Also, comment on the compensation to the officials. See Manual sections 2050.0, 2110.0, and 5010.36.

5020.2.8 TAX ALLOCATION (QUESTION 8)

See Manual sections 2070.0.

5020.2.9 USE OF SUBSIDIARY BANK PERSONNEL, OR ASSETS TO SELL CREDIT RELATED LIFE INSURANCE TO THE BANK'S CUSTOMERS (QUESTION 9)

This question refers to the Board's May 1981 policy statement on the disposition of income from the sale of credit life, health and accident, and mortgage life insurance (credit life insurance) related to loans made by state member banks. A reasonable amount of compensation must be paid to the state member bank in recognition of the role played by its personnel, premises, and goodwill in credit life insurance sales. As a general rule ''reasonable compensation'' means an amount equivalent to at least 20 percent of the affiliate's net income attributable to the financial institution's credit life insurance sales.

At the time of the Board's adoption, the policy was recommended for adoption by the other federal bank regulatory agencies thru the Federal Financial Institutions Examination Council. Therefore, the question is applicable to all banking subsidiaries, not just state member banks. If reasonable compensation is not being received by any or all subsidiary banks. Comment on this subject only when the parent or nonbank subsidiary receives income from the sale of insurance directly related to extensions of credit by a bank subsidiary. Describe any arrangement between the subsidiary bank(s) and the parent or nonbank affiliate concerning the sale of insurance directly related to extensions of credit. Note whether and/or when such arrangement was formally approved by the subsidiary bank's board of directors. Describe the manner of disposition of such insurance income. In situations where the subsidiary bank provides personnel and/or facilities for the sale of credit related insurance but receives no income, the bank, as a minimum, must be reimbursed for out-of-pocket costs.

5020.2.10 TIE-IN ARRANGEMENTS (QUESTION 10)

See Manual section 3500.0.

5020.2.11 LITIGATION (QUESTION 11)

If the holding company or its subsidiary(ies) is a defendant in any litigation, the results of which could have a significant adverse effect on the overall organization, provide details of the lawsuit, including, if possible, the opinion of the holding company's counsel as to the possible outcome of the suit. As a general guideline, include only suits representing more than 10 percent of the holding company's stockholder's equity capital.

5020.2.12 INSURANCE PROGRAM (QUESTION 12)

See Manual section 2060.5.

5020.2.13 AUDIT PROGRAM (QUESTION 13)

See Manual section 2060.1.

5020.2.14 INTERNAL LOAN REVIEW (QUESTION 14)

See Manual section 2060.6.

5020.2.15 ACCURACY AND TIMELINESS OF REPORTS (QUESTION 15)

If reports filed with the Federal Reserve (e.g. the FR Y–6 Annual Report) are not filed accurately and/or on time, provide comments as to the holding company's plans for correcting the problem. Any changes in accounting to conform with generally accepted accounting principles, as required by FR Y–6, should be discussed here.

5020.2.16 OUTSTANDING COMMITMENTS TO THE BOARD OF GOVERNORS (QUESTION 17)

If the holding company has outstanding commitments to the Board, summarize the commitments by describing the nature of the commitment, the date the commitment was made, and if applicable, the time frame in which it must be fulfilled. If the time frame has expired, or if an extension is deemed necessary to fulfill the commitment, details must be presented. The examiner may choose to make a reference to the unfulfilled commitment on the "Examiner's Comments" page 1, if considered appropriate.

5020.2.17 OTHER MATTERS HAVING A DETRIMENTAL IMPACT (QUESTION 18)

Discuss here any other matter having a detrimental impact upon the subsidiary bank(s) not discussed elsewhere in this report, and deemed pertinent by the examiner. Examples of some subject areas to be considered might be:

1. Public debt issues and commercial paper liabilities of the parent or nonbank subsidiary.

Comment on the following items where appropriate:

(1) Describe the debt instrument, including amount, interest rate, maturity, purchasers, and use of proceeds; (2) agency ratings; (3) determine whether any subsidiary (particularly a bank) sells the debt issue for its own use or on behalf of the parent and make critical comments whenever the issue does not clearly state that the issue is not an insured obligation of a bank subsidiary; (4) discuss any difficulties experienced in refinancing the debt; and (5) if a line of credit is used to back up a short term issue, indicate the lending bank, credit line, amount in use, expiration date, and required fee or compensating balance maintained by a subsidiary bank, if any, and whether the bank is being remunerated by the parent or nonbank affiliate. (See Manual section 5010.23.)

2. Adequacy of recordkeeping of the holding company, including nonbank subsidiaries. If

included, recommendations concerning the adoption of minimum recordkeeping standards should be presented and justified.

3. Contingent liabilities or violations not addressed elsewhere in the report (such as treasury stock purchased in violation of Regulation Y).

4. Payment of cash dividends in excess of net earnings available for common shareholders over the past year and the rate of earnings retention is not consistent with the organization's capital needs, asset quality, and overall financial condition.

5. Adverse relationships not elsewhere mentioned, such as inappropriate allocation of income and expenses of a nonbank activity performed by subsidiary bank employees.

1. This page is required to be included in the inspection report for bank holding companies with consolidated assets in excess of $1 billion or those companies that have substantive fixed charges or debt outstanding, as well as selected others at the option of the Reserve Bank.

Manual Section 5030.0 Page No.	*Report Page No.*	*Report Page Title*
FR 1241:		
49–50		Capital Structure (lead bank subsidiary)
51–52		Bank Subsidiary
53		Other Supervisory Issues

Page

REPORT OF BANK HOLDING COMPANY INSPECTION
FR 1225

Corporate title	Street	City
County	State	Zip Code

Mailing Address: ______________________

____

____

Federal Reserve Bank Examiner in Charge

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Date of Previous Inspection (Financial Statements as of) ______________________

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EXAMINER'S COMMENTS AND MATTERS
REQUIRING SPECIAL BOARD ATTENTION

Page 2

SCOPE OF INSPECTION AND ABBREVIATIONS

Page 3

ANALYSIS OF FINANCIAL FACTORS
(In thousands)

Page 4

AUDIT PROGRAM

Comment on the adequacy and the effectiveness of the holding company's audit program, including scope and frequency of audits of subsidiaries, and the relationship with the holding company's accounting firm. Identify to whom the auditor is responsible and who receives the audit reports. Describe the nature of any ''qualified opinion'' submitted by the independent auditors in certifying the most recent year's financial statements and any pertinent comments regarding relations with the directors' audit committee. If the holding company does not have its own audit staff, describe the role of the internal audit staffs of the subsidiaries, and the role of the independent accounting firm of the holding company, and state if such arrangements are adequate.

Page 5

PARENT COMPANY COMPARATIVE BALANCE SHEET
(In thousands)

	As of December 31, 19x3	19x2	19x1
ASSETS			
Cash and due from banks	$	$	$
Securities			
Loans and leases, net			
Investments in and rec. due from subsidiaries			
Premises and equipment			
Intangible assets			
Other assets			
Total Assets			
LIABILITIES			
Short-term borrowings			
Long-term borrowings			
Mandatory convertible securities			
Subordinated notes and debentures			
Other liabilities			
Balances due to subsidiaries			
Limited-life preferred stock			
Total Liabilities			
STOCKHOLDERS' EQUITY			
Perpetual preferred stock			
Common stock			
Capital surplus			
Retained earnings			
Less: Treasury stock			
Total Stockholders' Equity			
Total Liabilities and Stockholders' Equity	$	$	$

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PARENT COMPANY COMPARATIVE STATEMENT
OF INCOME AND EXPENSES
(In thousands)

	For the Month Ended	For the Year Ended December 31,	
	19x3	19x2	19x1
INCOME			
Income from subs:			
Dividends	$	$	$
Interest			
Mgmt. and service fees			
Other income			
Securities gains (losses)			
Other income			
Total			
EXPENSES			
Personnel expense			
Interest			
Provisions			
Other expenses			
Total			
INCOME BEFORE TAXES AND EQUITY IN UNDISTRIBUTED EARNINGS			
Income taxes (Credits)			
Extraordinary items			
INCOME BEFORE EQUITY IN UNDISTRIBUTED EARNINGS			
Equity in undistributed earnings			
NET INCOME	$	$	$

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SUMMARY OF CONSOLIDATED CLASSIFIED AND SPECIAL MENTION ASSETS, AND OTHER TRANSFER RISK PROBLEMS
(In thousands)

Organization	Special Mention	Other Transfer Risk Problems	Substandard	Value Impaired	Doubtful	Loss	Total	Valuation Reserves
Parent:								
Bank Subsidiaries:								
Nonbank Subsidiaries:								
Total								
Total Classifications:								

Trends in Consolidated Asset Quality

Information dates as of:	19x1	19x2	19x3
Weighted classifications[1] / Tier 1 + Allowance for loan losses[2]			
Total classifications / Tier 1 + Allowance for loan losses[2]			
Allowance for loan and lease losses / Total loans and leases			

Information dates as of:	19x1	19x2	19x3
30+ PD & NA/Total loans & leases			
90+ PD & NA/Total loans & leases			
Allowance for loan and lease losses/ 90+ PD & NA			

1. Weighted classifications equal the aggregate of 20 percent of assets classified substandard and value impaired (net of allocated transfer risk reserve), 50 percent of doubtful, and 100 percent of loss.
2. For this ratio, tier 1 capital is to be calculated using risk-based capital guidelines effective December 31, 1992. Also, the allowance for loan and lease losses is included without limit.

Page 8

CONSOLIDATED COMPARATIVE BALANCE SHEET
(In thousands)

	As of December 31,		
	19x3	19x2	19x1
ASSETS			
Cash and due from banks	$	$	$
Securities			
Federal funds sold and Reverse REPOs			
Loans and leases—net ICNE			
Less: Reserves			
Trading account assets			
Premises and fixed assets			
Other real estate owned			
Affiliated investments			
Acceptances—customer's liab.			
Intangible assets			
Other assets			
Total Assets			
LIABILITIES			
Deposits			
Federal funds purchased and REPOs			
Commercial paper			
Other short-term borrowings			
Other long-term borrowings			
Mortgage indebtedness and lease obligations			
Mandatory convert. sec.			
Subord. notes and deb.			
Liability on acceptances			
Minority interest			
Other liabilities			
Limited-life prfd. stock			
Total Liabilities			
STOCKHOLDERS' EQUITY			
Perpetual prfd. stock			
Common stock			
Capital surplus			
Retained earnings			
Less: Treasury stock			
Total Stockholders' Equity			
Total Liabilities and Stockholders' Equity	$	$	$

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CONSOLIDATED COMPARATIVE STATEMENT
OF INCOME AND EXPENSES
(In thousands)

	For the Months Ended , 19x3	For the Year Ended December 31, 19x2	19x1
INTEREST INCOME			
Loan interest and fees	$	$	$
Lease financing rec.			
Interest bearing bank balance			
Securities			
Trading account income			
Fed. funds sold & Rev. REPOs			
Other interest income			
Total Interest Income			
INTEREST EXPENSE			
Deposits			
Fed. funds purch. & REPOs			
Borrowed funds			
Other interest expense			
Total Interest Expense			
NET INTEREST INCOME			
Provisions			
Net Interest Income After Provisions			
OTHER OPERATING INCOME			
Fiduciary activities			
Service charges and fees			
Trading account income			
Other income			
Security gains (losses)			
Total Other Income			
OTHER OPERATING EXPENSE			
Personnel			
Premises and fixed assets			
Other expenses			
Total Other Expense			
INCOME BEFORE TAX AND OTHER ADJUSTMENTS			
Income taxes (Credits)			
Minority interest			
Extraordinary items			
NET INCOME	$	$	$

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CONSOLIDATED CAPITAL STRUCTURE
(In thousands)

	As of December 31, x
TIER 1 CAPITAL:	
Common Stockholders' Equity:	
Common stock (par $_____: shares issued _____)	$
Common stock surplus	
Undivided profits and capital reserves (net)	
Less:Treasury stock	(______________)
Total Common Stockholders' Equity	
Cumulative foreign currency translation adjustments	
Minority interest in equity accounts of consolidated subsidiaries	______________
Subtotal of Core Capital Elements	
Perpetual preferred stock eligible for Tier 1	______________
Tier 1 Capital Elements	______________
Less: Goodwill	(______________)
Tier 1 Capital	______________
TIER 2 CAPITAL:	
Subordinated debt, intermediate-term preferred stock, and unsecured long-term debt	
Perpetual preferred stock and surplus eligible for Tier 2 only (par $_____: shares outstanding _____: rate_____%)	
Perpetual preferred stock exceeding Tier 1 limit	
Perpetual debt	
Mandatory convertible securities (net)	
Long-term limited-life preferred stock	
Allowance for loan and lease losses	______________
Supplementary Capital Elements	
Less: Supplementary capital elements eligible for Tier 1	(______________)
Tier 2 Capital Elements	
Less: Amount Tier 2 Capital exceeds Tier 1 Capital	(______________)
Tier 2 Capital	______________

Page 10-1

CONSOLIDATED CAPITAL STRUCTURE
(In thousands)

	As of December 31, x
TOTAL QUALIFYING CAPITAL:	
Tier 1 Capital	$
Tier 2 Capital	
Less: Investments in unconsolidated financial subsidiaries	( )
Reciprocal holdings of capital	( )
Total Qualifying Capital	$
RISK-WEIGHTED ASSETS:	
Risk-weighted balance sheet assets[1]	$
Risk-weighted off-balance sheet assets	
Add: Goodwill	
Gross Risk-Weighted Assets	
Less: Excess allowance for loan and lease losses (not included in capital)	( )
Allocated transfer risk reserve	( )
Risk-Weighted Assets	$

CAPITAL RATIOS AND TRENDS:

	Peer Data December 31, 19x1	As of December 31, 19x1	December 31, 19x0	December 31, 19x9
Tier 1 capital ratio:[2] Year-end 1992 rules	%	%	%	N/A %
Total capital ratio: Year-end 1992 rules	%	%	%	N/A
Tier 1 leverage ratio[3]	%	%	%	N/A
Tangible leverage ratio[4]	%	%	%	N/A

1. Risk-weighted balance sheet assets excludes all goodwill, net unrealized loss in marketable equity securities, investments in unconsolidated banking or financial subsidiaries, and reciprocal holdings of capital.
2. The Tier 1 capital ratio is calculated by deducting ½ of all investments in unconsolidated banking or financial subsidiaries from Tier 1 capital and dividing the remaining amount by risk-weighted assets. If there is insufficient Tier 2 capital from which the other half of the investments in unconsolidated banking or financial subsidiaries would be deducted, then also deduct the deficient amount from Tier 1 capital.
3. The Tier 1 leverage ratio is calculated by dividing Tier 1 capital (as defined by the final capital guidelines, effective December 31, 1992) by average total assets (for the most recent quarter) less all goodwill.
4. The tangible leverage ratio is calculated by deducting all intangibles from Tier 1 capital and dividing by average total assets (for the most recent quarter) less all intangibles.

Page

POLICIES AND SUPERVISION

Discuss and appraise the parent company's policies with respect to:

The level of control and supervision exercised over subsidiaries.

Dividends and fees from subsidiaries.

Loans and investments of subsidiaries.

Risk evaluation and control.

Funds management and the adequacy of existing policies.

Management information systems.

Loan participations by and between subsidiaries.

Internal loan review.

Page

VIOLATIONS

Page

OTHER MATTERS

Page

CLASSIFIED ASSETS AND CAPITAL RATIOS OF SUBSIDIARY BANKS
(In thousands)

Bank and Date of Examination	Total Assets	Sub-standard	Doubtful	Loss	Valua-tion Reserves	1992 Tier 1 Capital	1992 Total Capital	Weighted Classi-fied Assets[1] To 1992 Tier 1 Capital Plus Valua-tion Reserve	1992 Tier 1 Capital To Average Total Assets

1. Includes 100 percent of loss, 50 percent of doubtful, and 20 percent of substandard and value impaired.

Page

ORGANIZATION CHART

Page

HISTORY AND STRUCTURE

1. Date and State of incorporation:
2. Date acquired control of first subsidiary bank:
3. Date became subject to the Bank Holding Company Act of 1965, as amended:
4. Comment on the bank holding company's structure:

Page

INVESTMENT IN AND ADVANCES TO SUBSIDIARIES
As of________________
(In thousands)

Subsidiary	Investment	Advance	Total	% of Parent's Total Assets	% of Parent's Stock-holders' Equity

Page

INVESTMENT IN AND ADVANCES TO SUBSIDIARIES

1. If the parent's investment in a subsidiary differs from its proportionate interest in the stockholders' equity of the subsidiary, provided detail.
2. Provide details if any advance to a subsidiary has been reclassified as equity by the parent company since the last inspection.
3. Provide details if the proceeds of any parent company borrowings have been injected into its subsidiaries as Tier 1 and/or Tier 2 capital since the last inspection.
4. How does the parent determine the interest rate charged to the subsidiaries?
5. Does the parent company require timely payment of interest charged to subsidiaries?
6. Does the parent guarantee any liablities of the subsidiaries?

Comments:

Page

COMMERCIAL PAPER
(In thousands)

As of________________

Maturity Schedule

Maturity	Direct Placements	Dealer Placements	Total
0–30 days			
31–90 days			
91–180 days			
Over 180 days			
Total			

Page

LINES OF CREDIT
(In thousands)

As of________________

Lending Bank	Credit Line	Expiration Date	In Use	Available	Compensating Balance*

*Compensating balance maintained by subsidiary bank on behalf of parent.

Page

PARENT COMPANY COMMERCIAL PAPER AND LINES OF CREDIT

1. Indicate the commercial paper rating, the rating agency, any recent changes in the rating, and the range of current rates paid on all paper.
2. Does any subsidiary sell commercial paper either for its own use or on behalf of the parent? If so, discuss.
3. Does the commercial paper clearly state that it is not an insured obligation of any banking subsidiary?
4. What is the minimum denomination of commercial paper sold?
5. Indicate the amount of parent's commercial paper being held in the trust department(s) of the subsidiary bank(s).
6. Discuss the holding company's policy with regard to the use of the proceeds from the sale of commercial paper.
7. Is there any concentration of holdings in excess of 10 percent of the bank holding company's commercial paper by any individual, organization or industry? If so, discuss.
8. Has the parent experienced any difficulty in refinancing its commercial paper at maturity? If so, discuss.
9. Indicate which of the lines of credit are contractual obligations of the lender.
10. Indicate which lines are specifically used as back-up lines for commercial paper borrowings.
11. Indicate if the lines of credit are used on a systematic rotation basis.
12. Indicate which lines of credit are reciprocal between the lender and either the subject bank holding company or its subsidiary banks.
13. Indicate if any subsidiary is authorized to borrow directly on the parent company's lines of credit.

Comments:

Page

PARENT COMPANY CONTINGENT LIABILITIES AND SCHEDULE
OF BALANCE SHEET AND INCOME & EXPENSE
ACCOUNTS NOT DETAILED ELSEWHERE
(In thousands)

Page

PARENT COMPANY STATEMENT OF CHANGES IN STOCKHOLDERS' EQUITY
(In thousands)

	Preferred Stock	Common Stock	Capital Surplus	Retained Earnings	Treasury Stock	Total
Balance as of 12-31-x3						

Page

INCOME FROM SUBSIDIARIES - INTERIM
For the ____ months ended ____
(In thousands)

Subsidiary	Equity in Undis-tributed Earnings	Dividends	Dividend Payout Ratio	Interest	Manage-ment Fees	Service Fees	Fees as a Percent of Subsidiary's Net Income

Page

INCOME FROM SUBSIDIARIES - FISCAL
For the ____ months ended ____
(In thousands)

Subsidiary	Equity in Undis-tributed Earnings	Dividends	Dividend Payout Ratio	Interest	Manage-ment Fees	Service Fees	Fees as a Percent of Subsidiary's Net Income

Page

PARENT COMPANY CASH FLOW STATEMENT
(in thousands)

		Prior Fiscal Year	Current Fiscal Year	Next Fiscal Year
INCOME				
Dividends from subsidiaries		$	$	$
Interest from subsidiaries				
Management and service fees				
Other operating cash income				
Total Cash Income				
EXPENSES				
Interest	(2)			
Lease and rental	(3)			
Salary and employee benefits				
Other operating cash expenses				
Total Cash Expenses				
BEFORE TAX CASH INCOME				
Income tax payments from:				
Bank				
Nonbank/Other				
Income tax payments				
AFTER TAX CASH INCOME	(1)			
EXTERNAL SOURCES				
Issuance of stock				
Net increase in borrowed funds				
Advances to subsidiaries repaid:				
Bank				
Nonbank				
Sale of assets				
Total External Sources		$	$	$

Page

PARENT COMPANY CASH FLOW STATEMENT
(in thousands)

	Prior Fiscal Year	Current Fiscal Year	Next Fiscal Year
EXTERNAL USES			
Net decrease in borrowed funds	$	$	$
Dividend payments: Preferred (5)			
Common (6)			
Equity investment in subsidiaries:			
Bank			
Nonbank			
Advances to subsidiaries:			
Bank			
Nonbank			
Purchase of assets			
Total External Uses			
NET CHANGE IN CASH POSITION			
CASH BALANCE BEGINNING			
ENDING CASH BALANCE	$	$	$
Memorandum:			
Contractual long-term debt retired (4)	$	$	$

Page

PARENT COMPANY CASH FLOW STATEMENT
(in thousands)

	Prior Fiscal Year	Current Fiscal Year	Next Fiscal Year
FIXED CHARGE COVERAGE RATIO:			
$\dfrac{(1)+(2)+(3)}{(2)+(3)+(4)+(5)}$			
COMMON STOCK CASH DIVIDEND COVERAGE RATIO:			
$\dfrac{(1)-[(4)+(5)]}{(6)}$			

1. Are the parent company's fixed charges covered by its cash earnings? What is the amount of excess or deficiency?
2. Are the parent company's dividend payments to stockholders covered by its residual cash earnings? What is the amount of excess or deficiency?
3. Giving full consideration to the requirements for loan loss reserves and capital structure of the bank and the major nonbank subsidiaries:
   (a) Is the present level of dividends paid by the bank and the major nonbank subsidiaries to the parent company sustainable?
   (b) What is the scope for increasing the cash flow to the parent company?
4. If cash flow is insufficient to cover fixed charges and cash dividend payments, discuss the steps management has taken, or plans to take, to restore adequate cash earnings coverage. Include comments on whether such plans would be commensurate with the maintenance of adequate loan loss reserves and capital levels in the bank and the major nonbank subsidiaries.
5. If cash flow is insufficient to cover cash dividend payments, should the parent company revise its dividend policy to conform to the Board's guidelines on the payment of cash dividends?
6. Discuss significant cash flow transactions as deemed appropriate by the examiner.

Page

PARENT COMPANY LIQUIDITY POSITION
(In thousands)

As of________________

	0–30 Days*	31–90 Days	91 Days– 1 Year	1–2 Years	2 Years Plus	Total
ASSETS						
Cash & Non-interest Bearing Balances Due from Banks						
Interest Bearing Deposits:						
With Subsidiary Banks						
With Other Banks						
Securities Purchased Under Agreements To Resell						
Advances/Loans to:						
Subsidiaries**						
Non-affiliated Entities						
Marketable Investment Securities (Market Value)						
Trading Account						
Interest Receivable						
Dividends Receivable						
Investments in Subsidiaries						
Other Assets						
Totals						

Page

PARENT COMPANY LIQUIDITY POSITION
(In thousands)

	0–30 days*	31–90 days	91 days–1 Year	1–2 Years	2 Years Plus	Total
LIABILITIES						
Commercial Paper						
Master Notes						
Due to Banks						
Securities Sold Under Agreements to Repurchase						
Interest Payable						
Dividends Payable						
Other Short-term Liabilities or Debt						
Other Liabilities						
All Long-term Debt						
Totals						
Net Position						
Cumulative Excess (Deficiency)			***			

*For certain organizations, this grouping may be broken down into two categories 0–7 days and 8–30 days.
**Do not include mandatory convertible or equity commitment notes.
***Cumulative deficiency in this category must be covered appropriately through a contingency plan, including unused back-up lines of credit.

Page

PARENT COMPANY AND NONBANK SUBSIDIARY ASSETS
SUBJECT TO CLASSIFICATION

Description of Assets*	Classification		
	Substandard (Amount)	Doubtful (Amount)	Loss (Amount)

*Including maker (and endorser where applicable), security and comments.

Page

BANK SUBSIDIARIES
(in thousands)

Page

NONBANK SUBSIDIARY

1. Name:
2. Location:
3. Date of FRS approval:
4. Date acquired or established:
5. Date activity commenced (*de novo* only):
6. Statutory authority:
7. Branch office locations:
8. History and description:
9. Risk assessment:

Page

NONBANK SUBSIDIARY FINANCIAL STATEMENTS
(in thousands)

Page

FIDELITY AND OTHER INDEMNITY INSURANCE

	Name of Surety	Primary Amount	Excess Amount	Expiration Date

1. Bankers blanket and fidelity bonds:

   a. Blanket bonds

   b. Excess fidelity bonds

2. Are all officers and employees covered by bankers blanket or fidelity bonds?_____

3. Date of last recorded directors' approval of bankers blanket and fidelity bonds:_____

4. Indicate if any of the above coverage applies to any subsidiary of the holding company.

5. Indicate if any subsidiary of the holding company maintains the above coverage and extends the coverage to the holding company.

Examiner's Comments:

Page

OTHER SUPERVISORY ISSUES
(FR 1225)

1. Are there any intercompany transactions subject to comment? _____ . If so, discuss.
2. Does the subsidiary bank(s) maintain compensating balances at another institution for debt advanced to the holding company? _____ . If the bank is not adequately compensated, discuss.
3. Do the holding company's intercorporate income tax accounting policies and practices conform with the Board of Governor's September 1978 policy statement? _____ . If not, discuss.
4. Is the holding company in compliance with the tie-in prohibitions contained in Section 106(b) of the BHC Act Amendments of 1970? _____ . If not, discuss.
5. Are there any insider transactions subject to comment? _____ . If so, discuss.
6. Is the holding company or its subsidiary(ies) a defendant in any litigation the results of which could have a significantly adverse effect on the overall organization? _____ . If so, discuss.
7. Is the insurance program for the holding company considered adequate? _____ . If not, discuss.
8. Is the holding company's audit program considered adequate? _____ . If not, discuss
9. Is the holding company's quality review program considered effective? _____ . If not, discuss.
10. Are reports filed with the Federal Reserve System prepared accurately and submitted on a timely basis? _____ . If not, discuss.
11. Has the holding company complied with all representations made in application(s) to the Board of Governors? _____ . If not, discuss.
12. Does the holding company have any outstanding commitments to the Board of Governors? _____ . If so, discuss.

Page

EXTENSIONS OF CREDIT TO BANK HOLDING COMPANY OFFICIALS AND THEIR RELATED INTERESTS AND INVESTMENTS IN AND LOANS ON STOCK OR OBLIGATIONS OF THEIR RELATED INTERESTS
(In thousands)

Recapitulation

	Direct	Indirect
1. Extensions of credit by the parent or its nonbank subsidiaries to:		
a. principal shareholders'[1] of the parent company or its subsidiaries (excluding the subsidiary bank's nonbank subsidiaries)		
b. directors of the parent company or its subsidiaries (excluding the subsidiary bank's nonbank subsidiaries)		
c. executive officers[2] of the parent company of its subsidiaries (excluding the subsidiary bank's nonbank subsidiaries)		
d. related interests[3] of a bank holding company official[4]		
2. Investment of the parent company and its nonbank subsidiaries in stocks, bonds or other obligations of a related interest[3] of a bank holding company official[4]		
3. Loans by the parent company or its nonbank subsidiaries to any borrower secured by stocks, bonds of other obligations of a related interest[3] of a bank holding company official.[4]		
Totals		

1. ''Principal shareholder'' as defined in Section 215.2(j) of Regulation O.
2. ''Executive officer'' as defined in Section 215.2(d) of Regulation O.
3. ''Related interests'' as defined in Section 215.2(k) of Regulation O. Note the terms ''company'' and ''control'' are defined in Section 215.2(a) and (b) respectively, of Regulation O. However, for purposes of this item, ''related interests'' shall also include ''insured banks.''
4. ''Bank holding company official'' is defined as any director, executive officer, or principal shareholder of the parent company or any of its subsidiaries, excluding the subsidiary bank's nonbank subsidiaries.

Page

EXTENSIONS OF CREDIT TO BANK HOLDING COMPANY OFFICIALS AND THEIR RELATED INTERESTS AND INVESTMENTS IN AND LOANS ON STOCK OR OBLIGATIONS OF THEIR RELATED INTERESTS
(In thousands)

Schedule

Listed individually below within each group as defined on the previous page are only those loans and investments of $______ or more and all loans and investments classified; all other loans and investments are combined within each group and are not listed individually. Duplications within and between groups are deducted from the total of the appropriate group.

Name of Borrower or Investment and Comments	Direct	Indirect	Terms

Page

INTEREST RATE SENSITIVITY
ASSETS AND LIABILITIES
(In Thousands)

	Repricing Interval				
	1–90 Days	91–180 Days	181–365 Days	1–2 Years	2–5 Years
Interest-Sensitive Assets:					
Totals					
Cumulative totals					
Interest-Sensitive Liabilities:					
Totals					
Cumulative totals					
Gap					
Cumulative Gap					
Interest-sensitive Assets/ Interest-sensitive Liabilities (cumulative)			%	%	%
Cumulative gap/ Total assets			%	%	%

Comments:

Page

TREASURY ACTIVITIES/CAPITAL MARKETS
(FR 1225)

1. Provide an overview of the organization's capital markets activities. The overview should distinguish between various types of functional activity, such as market making, trading, or end user, and include a relevant measure of volume for the activity as well as earnings performance.

2. Does the organization maintain written policies and procedures that clearly outline the process for controlling risks inherent in the organization's functional activities? Describe where policies and procedures are deficient.

3. Does the organization have a written overall strategy covering all capital markets activities? ____ Explain.

4. Has this strategy been effectively communicated to the Board of Directors? ____ Explain.

5. Does the organization have risk-management processes in place to manage and control all significant risk exposures (e.g., market, credit, operations, liquidity, and legal-risk exposures)? ____ Can the organization manage and control risks on a consolidated basis? ____ Explain.

6. Specifically, describe how the organization measures and manages the market-risk exposures related to these activities. Is this process adequate given the complexity and size of the activities as well as the capital position of the institution? ____ Explain.

7. Also describe how the organization measures and manages both the current and potential credit-risk exposures related to these activities. Is this process adequate given the complexity and size of the activities as well as the capital position of the institution? ____ Explain.

8. Does the organization have management information systems to provide accurate and timely information to senior management and the board of directors?

9. Are internal control processes sufficient to ensure safe and sound operations? ____ Explain.

10. Does the organization have an audit plan for capital markets activities? ____ Is it Adequate? ____ Explain.

Page A

Confidential Section
PRINCIPAL OFFICERS AND DIRECTORS

Regular schedule of director's meetings: _____.

Fee paid each director: _____.

*Meetings missed of _____ held during the last _____ months.

Name Address (City, Sate) Year of Birth	Shares Owned	Years on BHC Board	Meetings Missed*	Salary (1 and 2 only)	Bonus (1 and 2 only)	Title/Position at: 1. Holding Company (Committees) 2. Subsidiary and/or Affiliate 3. Prinicpal Occupation or Business Affiliation
				$	$	1. 2. 3.
				$	$	1. 2. 3.
				$	$	1. 2. 3.
				$	$	1. 2. 3.
				$	$	1. 2. 3.

Page B

Confidential Section
CONDITION OF BANK HOLDING COMPANY

1. Future prospects of holding company.
2. Assess Management and the Board of Directors. In addition, appraise the policies with respect to the level of control and supervision exercised over subsidiaries, including risk evaluation and control and management information systems.
3. Subsidiary bank(s), date of most recent examination and rating.
4. Is the holding company a member of a chain banking organization? _____ Summarize significant problems at any affiliated holding company, subsidiary bank or in the chain organization.
5. List individuals or groups that own or control 5 percent or more of the outstanding voting shares of the bank holding company's stock. Discuss significant changes in ownership.
6. Other supervisory concerns.
7. BOPEC Rating.
8. Recommendations for supervisory action.

Comments:

Page C

Confidential Section
LIQUIDITY AND DEBT INFORMATION
(In thousands)

Parent Only Short-term GAP Position

	0–30 days	31–90 days	91 days–1 year
Liquid Assets			
Commercial Paper			
Net			
Net cumulative			

Long-term Debt

List all unaffiliated long-term debt in the following format indicating the amount that qualifies as Tier 2 capital.

Borrower	Type of Issue	Original Amount	On Date	Rate	Due Date	Present Out-standing	Lender
		$		%		$	
		$		%		$	
		$		%		$	
		$		%		$	
		$		%		$	
		$		%			

Page D

Confidential Section
ADMINISTRATIVE AND OTHER MATTERS

Name of Examiners	Total Work Days	
	Field	Office

Final meeting held with:

Contact persons for records of bank holding company:

Suggestions for the next inspection:

Comments on Other Matters:

Bank Subsidiary Name ______________________ Page

BANK SUBSIDIARY CAPITAL STRUCTURE
(In thousands)

	As of December 31, 19xx
TIER 1 CAPITAL:	
Common Stockholders' Equity:	
Common stock (par $_____: shares issued _____)	$
Common stock surplus	
Undivided profits and capital reserves (net)	
Total Common Stockholders' Equity	
Cumulative foreign currency translation adjustments	
Noncumulative perpetual preferred stock and related surplus (par $_____: shares outstanding _____: rate_____%)	
Minority interest in equity accounts of consolidated subsidiaries	
Tier 1 Capital Elements	
Less: Goodwill	( )
Tier 1 Capital	
TIER 2 CAPITAL:	
Subordinated debt and intermediate-term preferred stock	
Mandatory convertible securities (net)	
Cumulative perpetual preferred stock and related surplus (par $_____: shares outstanding _____: rate_____%)	
Long-term limited-life preferred stock	
Allowable allowance for loan and lease losses	
Supplementary Capital Elements	
Less: Supplementary capital elements eligible for Tier 1	( )
Tier 2 Capital Elements	
Less: Amount Tier 2 Capital exceeds Tier 1 Capital	( )
Tier 2 Capital	
TOTAL QUALIFYING CAPITAL:	
Tier 1 Capital	$
Tier 2 Capital	
Less: Investments in unconsolidated financial subsidiaries	( )
Reciprocal holdings of capital	( )
Total Qualifying Capital	$

Page

BANK SUBSIDIARY CAPITAL STRUCTURE
(In thousands)

	As of December 31, x
RISK-WEIGHTED ASSETS:	
Risk-weighted balance sheet assets [1]	$
Risk-weighted off-balance sheet assets	
Gross Risk-Weighted Assets	
Less: Excess allowance for loan and lease losses (not included in capital)	( )
Allocated transfer risk reserve	( )
Risk-Weighted Assets	$ [2]

CAPITAL RATIOS AND TRENDS:

	Peer Data December 31, 19x1	Quarter Ended December 31, 19x1	Year Ended December 31, 19x0	Year Ended December 31, 19x9
Tier 1 capital ratio: [3]				
Year-end 1992 rules	%	%	%	%
Total capital ratio:				
Year-end 1992 rules	%	%	%	%
Tier 1 leverage ratio [4]	%	%	%	%
Tangible leverage ratio [5]	%	%	%	%

1. Risk-weighted balance sheet assets excludes all goodwill, net unrealized loss in marketable equity securities, investments in unconsolidated banking or financial subsidiaries, and reciprocal holdings of capital.
2. If the bank's risk-based capital ratios exceed the December 31, 1992 minimum requirements and detailed risk-weighted asset information is not readily available, then write 'NA' here and on Tier 1 capital ratio and total capital ratio lines below.
3. The Tier 1 capital ratio is calculated by deducting ½ of all investments in unconsolidated banking or financial subsidiaries from Tier 1 capital and dividing the remaining amount by risk-weighted assets. If there is insufficient Tier 2 capital from which the other half of the investments in unconsolidated banking or financial subsidiaries would be deducted, then also deduct the deficient amount from Tier 1 capital.
4. The Tier 1 leverage ratio is calculated by dividing Tier 1 capital (as defined by the final capital guidelines, effective December 31, 1992) by average total assets (for the most recent quarter) less *all* goodwill.
5. The tangible leverage ratio is calculated by deducting all intangibles from Tier 1 capital and dividing by average total assets (for the most recent quarter) less all intangibles.

Page

BANK SUBSIDIARY
(In thousands)
(FR 1241)

Balance Sheet Data

	, 19x3	As of December 31, 19x2	19x1
Cash and due from banks	$	$	$
Investments			
Federal funds sold			
Loans (net of ICNE)			
Valuation reserve	( )	( )	( )
Other assets			
Total Assets			
Total deposits			
Borrowings			
Other liabilities			
Subordinated debt			
Total liabilities			
Stockholders' Equity			
Total Liabilities and Stockholders' Equity	$	$	$
Asset growth rate	%	%	%

Income Data

	Months Ended (Month), 19x3	For the Year Ended December 31, 19x2	19x1
Net Income	$	$	$
Cash dividends	$	$	$
Net income to average assets	%	%	%
Cash dividends to net income	%	%	%

Page

BANK SUBSIDIARY
(In thousands)
(FR 1241)

Examination Data

	As of		
	(Month), 19xx	(Month), 19xx	(Month), 19xx
Classified assets:			
Substandard			
Doubtful			
Loss			
Weighted classified assets[1] to Tier 1 and Allowance for loan losses[2]	%	%	%

1. Twenty percent of substandard and value impaired (when applicable), plus 50 percent of doubtful, plus 100 percent of loss classification.
2. For this ratio, Tier 1 capital is to be calculated using risk-based capital guidelines effective December 31, 1992. Also the allowance for loan and leases losses is included without limit.

Page

OTHER SUPERVISORY ISSUES
(FR 1241)

1. Comment on the extent of control the holding company exercises over the policies of the subsidiary bank. ____ .
2. Is the holding company's policy on assessing dividends from the subsidiary bank(s) reasonable and is it being complied with? ____ .
3. Has the holding company complied with all representations made in application(s) to the Board of Governors? ____ .
4. Does the subsidiary bank(s) maintain compensating balances at another institution for debt advanced to the holding company? ____ .
5. If applicable, describe the holding company's policy on assessing management and service fees for work performed for the subsidiary bank. Are policies and fees reasonable? ____ .
6. Are there any intercompany transactions subject to comment? ____ .
7. Are there any insider transactions subject to comment? ____ .
8. Do the holding company's intercorporate income tax accounting policies and practices conform with the Board of Governors' September, 1978 policy statement? ____ .
9. If the holding company uses a subsidiary bank's personnel, or assets to sell credit related life insurance to the bank's customers, does the holding company give the bank reasonable compensation for its services in compliance with the Board of Governors' policy statement of May, 1981? ____ .
10. Is the holding company in compliance with the tie-in prohibitions contained in Section 106(b) of the BHC Act Amendments of 1970? ____ .
11. Is the holding company or its subsidiary(ies) a defendant in any litigation the results of which could have a significantly adverse effect on the overall organization? ____ .
12. Is the insurance program for the holding company organization considered adequate? ____ .
13. Is the holding company's audit program considered adequate? ____ .
14. Is the holding company's credit quality review program considered effective? ____ .
15. Are reports filed with the Federal Reserve System prepared accurately and submitted on a timely basis? ____ .
16. Did the inspection uncover any violation of law, regulation or Federal Reserve policy statement not cited above? ____ .
17. Does the holding company have any outstanding commitments to the Board of Governors? ____ .
18. Is there any other matter having a detrimental impact on the subsidiary bank(s) not discussed elsewhere in this report?____ .

5040.0.1 OBJECTIVES

The limited-scope inspection will review all areas of activity covered by a full-scope inspection report but less intensively.

5040.0.2 IMPLEMENTATION GUIDELINES

The ultimate responsibility for determining the appropriateness of the limited scope, and the actual elements of the scope of the inspection beyond the guidelines, rests with the Reserve Bank.

Certain report pages are required to be included in the limited-scope inspection. Other pages are required when certain events trigger their applicability, "exception (E)" pages. Pages not required may be included at the Reserve Bank's option. These are labeled as "optional" pages.

5040.0.2.1 Required Report Pages

As in the full-scope inspection report,[1] the limited-scope inspection report is divided into three parts: a core section, a section consisting of report pages that provide support to the core section, and a confidential section.

Core section. The core section of the report serves as the main vehicle for communicating the results of the inspection to management. The core pages contain the scope of the inspection, comments on administration of policies and supervision over subsidiaries, and an analysis of the BOPEC components, any or all of which could be used to support supervisory action, when necessary.

Support section. The supporting report pages contain narrative and financial and other data to support the analyses in the core section. The *required* pages provide the primary statistical support when addressing important supervisory problems or issues, and as appropriate, the BOPEC rating, or supervisory action, when needed.

Confidential section. The pages in this section are also required since they address matters of supervisory importance and other matters not deemed appropriate in the open section.

For a limited-scope inspection, the following report pages are *required:*

Manual Section No.	*Page Location*	*Page Title*
5010.2		Cover (FR 1427)
5010.3	Page i	Table of Contents
5010.4	Core Page 1	Examiner's Comments
5010.5	Core Page 2	Scope of Inspection
5010.41	Confidential Page B	Condition of the BHC

The Directors' Summary Report will be required as in the full-scope inspection. Appropriate information provided by other reporting vehicles, inspection/examination activities or other financial institution regulatory agencies should be considered. Refer to footnote #3 for further guidance as to the need for a Directors' Summary Report.

1. The basis for the limited-scope inspection report will be the "large" report, FR 1225.

5040.0.2.2 Exception Limited-Scope Report Pages

The following ‘‘exception (E)’’ pages should be included in the report as indicated below:

Manual Section No.	*Page Location*	*Page Title*
5010.6	Core Page 3	Structure and Abbreviations
5010.7	Core Page 4	Analysis of Financial Factors
5010.10	Core Page 7	Summary of Consolidated Classified and Special Mention Assets, and Other Transfer Risk Problems
5010.11	Core Page 8	Consolidated Comparative Balance Sheet
5010.12	Core Page 9	Comparative Statement of Income and Expenses (Consolidated)
5010.13	Core Page 11*	Capital Structure (Consolidated)[2]
5010.14	Page	Policies and Supervision
5010.15	Page	Violations
5010.16	Page	Other Matters
5010.17	Page*	Classified Assets and Capital Ratios of Subsidiary Banks
5010.19	Page*	History and Structure
5010.27	Page	Cash Flow Statement (Parent)
5010.28	Page	Parent Company Liquidity Position
5010.29	Page*	Parent Company and Nonbank Assets Subject to Classification
5010.31	Page*	Nonbank Subsidiary
5020.2	Page	Other Supervisory Issues
5010.40	Confidential Page A*	Principal Officers and Directors
5010.43	Confidential Page D	Administrative Matters

Pages with an (*) are optional if the limited-scope inspection is preceded by a full-scope inspection within the same annual period.

2. The corresponding FR 1241 page may be used if the basis is to be a lead bank subsidiary rather than on a consolidated position.

5040.0.2.2.1 Reasoning for Including ‘‘E’’ Pages

The ‘‘E’’ pages are included when the activities are present, or have been disclosed through the inspection process, or when significant findings or issues must be reported and communicated to management or to the appropriate supervising agency(ies). The limited-scope inspection report may include, at the discretion of the appropriate Reserve Bank, copies of the Bank Holding Company Financial Statements (FR Y-9) and Reports of Condition of Subsidiary Banks in place of pages containing required or optional financial statements. The FR Y-9 statements or the Reports of Condition should only be included when the financial statements accurately represent the condition of the bank holding company as determined during the inspection.

5040.0.2.3 Optional Limited-Scope Report Pages

In the limited-scope inspection, several pages have been labeled as optional because of the nonexistence of an activity or the absence of a problem in that area. Any inspection report page may be included in the report at the option of the Reserve Bank or the examiner-in-charge. Note that the ‘‘Commercial Paper’’ and related pages (5010.21 through 5010.23) are optional since the existence of this activity would be a ‘‘complex’’ organization, requiring a full-scope examination within the same annual period.

The *optional* pages are:

Manual Section No.	*Page Location*	*Page Title*
5010.8	Core Page 5	Parent Company Comparative Balance Sheet
5010.9	Core Page 6	Comparative Statement of Income and Expenses (Parent)
5010.18	Page	Organization Chart
5010.20	Page	Investment in and Advances to Subsidiaries
5010.21	Page	Commercial Paper (Parent)
5010.22	Page	Lines of Credit (Parent)
5010.23	Page	Commercial Paper and Lines of Credit (Parent)
5010.24	Page	Contingent Liabilities and Schedule of Balance Sheet Accounts Not Detailed Elsewhere (Parent)
5010.25	Page	Statement of Changes in Stockholders' Equity
5010.26	Page	Income from Subsidiaries (Fiscal and Interim)
5010.30	Page	Bank Subsidiaries
5010.32	Page	Nonbank Subsidiary Financial Statements and Condition
5010.33	Page	Fidelity and Other Indemnity Insurance
5010.34	Page	Audit Program
5010.37	Page	Interest Rate Sensitivity—Assets and Liabilities
5010.42	Confidential Page C	Liquidity and Debt Information

5040.0.3 LIMITED-SCOPE INSPECTION PROCEDURES

Procedure:	Complete FR 1417 and indicate that the scope was limited ("L").
Nature of Inspection:	Disclose on the "Scope of Inspection" page that the scope is limited including any additional procedures utilized for a certain area or activity during the inspection that might be comparable to a full-scope inspection.
Directors' Summary:	Required under the same conditions as in the full scope.[3]
Rating:	Assign BOPEC rating as appropriate. Indicate under what circumstances the rating was assigned and what components were changed, including the reasons why they were changed.
Inspection Cover:	Cover will designate "limited" scope (FR 1427) and will be a designated color other than the full-scope reports.

3. Should generally be prepared in accordance with the requirement for the preparation of written reports to directors summarizing the examination finding following a full-scope examination. Reserve Banks that have previously identified the problems and provided a report to the directors are not required to prepare the summary for the limited-scope inspection.

5040.0.4 LIMITED-SCOPE INSPECTION REPORT COVER (FR 1427)

FR 1427–Cover
(Revised 7/94)

REPORT OF
BANK HOLDING COMPANY
INSPECTION
(Limited Scope)

Name: ______________________ Inspection Commenced: ______________________

Location: ______________________ Inspection Concluded: ______________________

RSSD ID Number: ______________________ Inspection Date: ______________________

THIS REPORT OF INSPECTION IS STRICTLY CONFIDENTIAL

This report has been prepared by an examiner selected or approved by the Board of Governors of the Federal Reserve System. The report is the property of the Board of Governors and is furnished to directors and management for their confidential use. The report is strictly privileged and confidential under applicable law, and the Board of Governors has forbidden its disclosure in any manner without its permission, except in limited circumstances specified in the law (12 USC 1817(a) and 1831m) and in the regulations of the Board of Governors (12 CFR 261.11). Under no circumstances should the directors, officers, employees, trustees or independent auditors disclose or make public this report or any portion thereof except in accordance with applicable law and the regulations of the Board of Governors. Any unauthorized disclosure of the report may subject the person or persons disclosing or receiving such information to the penalties of Section 641 of the U.S. Criminal Code (18 USC 641). Each director or trustee, in keeping with his or her responsibilities, should become fully informed regarding the contents of this report. In making this review, it should be noted that this report is not an audit, and should not be considered as such.

FEDERAL RESERVE BANK OF

5050.0.1 OBJECTIVES OF A TARGETED INSPECTION

A targeted inspection is designed to focus intensively on one or more specific areas, activities, or problems relating to a bank holding company. Such inspections may be conducted for various reasons, including serving as a complement to an annual full-scope inspection.[1] Targeted inspections are conducted as directed by the System or at the discretion of the individual Reserve Banks. As a minimum, the inspection procedures used are comparable to a full-scope inspection.

1. FR 1225 will serve as the basis for a targeted inspection.

Report Pages Included:	Cover (FR 1428)
	Table of Contents for included pages and a key for abbreviations used in the report
	Examiner's Comments
	Scope of Inspection
	Other report pages supporting the scope, and the nature of the targeted inspection, as deemed appropriate by the Reserve Bank and the examiner-in-charge.
	Confidential pages consisting of confidential page B, "Condition of the Bank Holding Company," and confidential page D, "Administrative Matters."
Nature of Inspection:	Disclose on the "Scope of Inspection" that the scope is targeted and describe the procedures utilized for the targeted areas or activities.
Directors' Summary:	Required as prescribed in the full scope.[2]
Rating:	A new BOPEC *composite rating* of 1 through 5 would only be assigned if the bank holding company inspection results provide sufficient information to either reaffirm or modify the most recently assigned BOPEC composite rating. At least one component area must be rated between 1 and 5 in order to assign a new composite rating; otherwise a composite rating of 0 should be assigned.

2. Should generally be prepared in accordance with the requirement for the preparation of written reports to directors summarizing the examination finding following a full-scope examination. Reserve Banks that have previously identified the problems and provided a summary report to the directors are not required to prepare the summary for the targeted examination.

5050.0.2 TARGETED INSPECTION REPORT COVER (FR 1428)

FR 1428–Cover
(Revised 7/94)

REPORT OF
BANK HOLDING COMPANY
INSPECTION
(Targeted Scope)

Name: ____________________ Inspection Commenced: ____________________

Location: ____________________ Inspection Concluded: ____________________

RSSD ID Number: ____________________ Inspection Date: ____________________

THIS REPORT OF INSPECTION IS STRICTLY CONFIDENTIAL

This report has been prepared by an examiner selected or approved by the Board of Governors of the Federal Reserve System. The report is the property of the Board of Governors and is furnished to directors and management for their confidential use. The report is strictly privileged and confidential under applicable law, and the Board of Governors has forbidden its disclosure in any manner without its permission, except in limited circumstances specified in the law (12 USC 1817(a) and 1831m) and in the regulations of the Board of Governors (12 CFR 261.11). Under no circumstances should the directors, officers, employees, trustees or independent auditors disclose or make public this report or any portion thereof except in accordance with applicable law and the regulations of the Board of Governors. Any unauthorized disclosure of the report may subject the person or persons disclosing or receiving such information to the penalties of Section 641 of the U.S. Criminal Code (18 USC 641). Each director or trustee, in keeping with his or her responsibilities, should become fully informed regarding the contents of this report. In making this review, it should be noted that this report is not an audit, and should not be considered as such.

FEDERAL RESERVE BANK OF

A management information system (MIS) can be described as an automatic data processing system designed to aid in the performance of management functions. The MIS system is used in the decision-making process, which facilitates the collection and presentation of information to plan, organize, and control activities within the confines of the organizational culture. MIS encompasses the policies, procedures, and internal controls pertaining to management reporting which provide the information needed by the board to monitor and ensure control of operations and activities. MIS supports all levels of the organization in the execution of their duties—from the board of directors down to the lowest level of management within the company. A successful MIS will support the strategic direction of the company and promote the process by which decisions are made.

The objective of a targeted MIS inspection is to determine if the corporation has in place a management information system which is capable of providing its board of directors and senior management committees with sufficient, reliable, and timely data from which informed decisions can be made to monitor and manage risks. As a result, the targeted inspection uses a ‘‘top-down’’ approach, which focuses on the information used by the board and senior management committees and on the overall MIS architecture. For further inspection guidance, see the MIS sections 2060.0 to 2060.5 and SR-95-45 and its exhibits. The MIS supporting other levels of management should be reviewed during subsequent bank holding company inspections.

A targeted MIS inspection should be performed in companies in which there has been a notable alteration in the risk profile or aggressive expansion, or in which significant changes in information systems have occurred. This will ensure that executive management and the board have taken into consideration MIS and its ability to keep up with the changes in the organization. It should be noted that there is no one management reporting system. Depending on the structure of the organization, the activities that it engages in, the risk profile that results, and the technological environment that it operates under, MIS will be different in each bank holding company.

A key element of a successful MIS is the creation of the necessary technological support system. Since MIS is the primary tool for executive management and the board to monitor risk and measure performance, it is vital that the generated reports are accurate, provide sufficient information, and address all areas of the organization. Thus, data integrity is a key factor in analyzing the MIS process; inaccurate data can lead to faulty conclusions by management and the board. In addition, information flows to the top level of the organization should be comprehensive enough to allow for informed decisions. An overload of trivial information can cause confusion and slow the decision-making process.

The MIS inspection process focuses on three broad areas:

1. Relevance and Use of MIS
   - overall risk assessment of the corporation
   - identification of risk responsibilities and reporting lines within the organization
   - evaluation of the quality and relevancy of MIS reports
2. Internal Controls over MIS Integrity
   - identification of information flows and internal control points
   - evaluation of internal controls over information flows
   - evaluation of the report-development process and contingency plans
3. MIS Architecture and Planning
   - analysis of corporate strategic and technology plans, and the effect of their interrelationship on MIS
   - identification of the system architecture, including planned enhancements, and its effect on MIS
   - evaluation of the capability of system architecture to assimilate acquired organizations and the subsequent effect on MIS

The targeted MIS inspection evaluates the information flows to senior management and the computer or manual systems which support them. Bank holding company inspections place emphasis on reports generated by MIS rather than on the process by which they are created.

Management information systems are made up of various subsystems and will generally be unique to the organization. MIS will be influenced by the structure of the organization, its activities, its risk profile, and its technological capabilities. The targeted MIS inspection guidelines and procedures focus on the three broad areas outlined above and provide examiners with guidance on how to evaluate a bank holding company's MIS process.

5052.0.1 RELEVANCY AND USE OF MIS

Management information requirements will be determined by the size and complexity of an organization's operations. As an organization grows in size and its operations become more complex, management must recognize that information needs change. In addition, strategic goals may dictate a change in the focus of the company, requiring revisions in data collection and presentation. Guidelines and requirements for reports that flow to executive management and the board should be established, recognizing, however, that different levels of the organization have different informational needs.

The effectiveness of MIS has to be analyzed in terms of its ability to assist executive management and the board in identifying, monitoring, and controlling risks throughout the organization. Reports should be analyzed for quality, timeliness, and consistency. They should provide coverage of the major areas in the institution and communicate information clearly and concisely. An organization might have a comprehensive MIS, but if pertinent information is not flowing to executive management and the board of directors, the system is not effective.

Information must be presented in a summarized form, which is easy to read and understand. Procedures must be in place to allow for rapid collection and assimilation of data allowing for timely presentation to executive management and the board. The presentation of data should be consistent from one period to another to avoid any undue confusion. Changes in format need to be agreed on by all users of the report before implementation. Data should cover all areas of risk within the organization and provide comparisons to enable executive management and the board to measure performance.

An assessment of the executive management committee and board members should be performed. A review of reporting lines should also be performed. (See section 2060.4.)

5052.0.2 INTERNAL CONTROLS OVER MIS INTEGRITY

The review of data integrity of reports to the board of directors and executive management committee is essential to ensure that information flows are accurate and that reports are consistently prepared. For each report reviewed, the flow of information through MIS must be identified, including computer platforms, applications software, and interrelationships with other computer systems. Controls such as data entry and modification, data security, disaster recovery, back-up, and program changes should be assessed. Any points in the system where manual intervention occurs should be identified, and information on the flexibility of the system should be obtained.

The procedures used to assess the data integrity controls will vary depending on the nature of the computer platform and application software and on the amount of manual intervention required to produce the report. However, in all cases, the assessment of MIS data integrity controls should begin with a review of the results of prior inspections and the result of internal and external audit reports. Previously identified deficiencies that have not been corrected can affect the integrity of current data.

Reports produced by a mainframe application system should have controls within the mainframe environment and in the application system used to produce the report. These controls are reviewed during EDP examinations and periodic EDP audits. These examination and audit reports should be used as leverage during the MIS inspection, and the current status of deficiencies noted should be ascertained through discussions with internal auditors and management.

Reports may also be produced by personal computers using spreadsheet and other office-product software in a distributed processing environment. Reviews of distributed processing systems require interviews with the persons responsible for preparing the reports. Any instances of manual intervention in such an environment must be identified and evaluated. The most recent EDP examination report should also be reviewed for any deficiencies noted in the bank holding company's microcomputer policies and procedures. A review of internal audit reports for the applicable business area and discussions with audit personnel will reveal whether this PC/spreadsheet application has been audited recently.

5052.0.3 MIS ARCHITECTURE AND PLANNING

The business plan and the computer system's architecture plan should be designed to complement each other and must support the strategic plan. The business plan identifies the goals, target markets, and areas of risk of the organization. The architecture plan describes the corporate technological plans for implementing the systems that will achieve the strategic and business goals, and it should include MIS.

Information is a valuable corporate asset. In a competitive banking environment, the ability to effectively manage this asset is crucial to a bank holding company's ability to remain competitive, introduce new products and services, and achieve desired goals. Therefore, the computer system's architecture plan should be developed in conjunction with its business plan. The architecture plan should ensure that mainframe processing and MIS are appropriately integrated and in place for the banking organization to achieve its strategic goals.

The dynamic and competitive banking and technology environments make effective planning critical. Reconcilement of the business and computer system's architecture plans is necessary to determine the effectiveness of the banking organization's planning process. With the proliferation of mergers and acquisitions in the financial industry, this process becomes more complicated. It is essential that management have a clear vision of its strategic and business goals and the technology required to achieve them if it is to effectively manage the divergent technologies that may be inherited through mergers and acquisitions. Bank holding companies in this situation should decide which acquired systems will survive. Documentation should support management's decision, and formal conversion plans should be documented. Telecommunications, compatibility of systems, data integrity, capacity, contingency planning, and data security are especially critical in this situation and should be evaluated in the planning and conversion process.

Ultimately, the business and the computer system's architecture plans should support the strategic plan. If these plans do not complement one another, the ability of management to achieve its goals may be difficult.

5052.0.4 INSPECTION OBJECTIVES

1. To review the organizational structure to determine the various levels of decision-making and reporting lines, risk assessment, and controls, including board and executive management committees.
2. To assess the adequacy of the management reports generated for their timeliness, quality, accuracy, and coverage of crucial areas.
3. To evaluate reports in terms of their ability to measure the company's progress in meeting its financial and business goals, including the capability to produce forecasts using various scenarios.
4. To evaluate management procedures for reacting to elevated risk, weaknesses, or deficiencies disclosed by the MIS, and the system's ability to adapt to change caused by regulatory and accounting issues or by other market conditions.
5. To determine if the policies, practices, procedures, and internal controls regarding management information systems and management reporting are adequate.
6. To evaluate the controls in place to ensure the integrity of the information within MIS, including data security, disaster recovery, and the system's development life cycle.
7. To determine if the functions of automated systems, reconcilement procedures, and reporting processes are completely understood by staff and that these functions are fully documented.
8. To ensure that an architecture plan exists that includes MIS and that it supports the business and strategic plans.
9. To determine if a management process exists for MIS planning, including organizational responsibility, development, and implementation.
10. To determine if a strategy exists for an effective consolidation of systems in the event of a merger or acquisition.
11. To recommend enhancements and/or corrective action when policies, practices, procedures, internal controls, or MIS are deficient.

5052.0.5 INSPECTION PROCEDURES

5052.0.5.1 General

1. Present the first-day request letter to executive management well in advance of the targeted inspection commencement date, allowing sufficient time for data collection (e.g., at least two weeks before). (See SR-95-45, exhibit A, for a sample first-day letter.) The examiner-in-charge should review the responses well in advance of the start of the inspection.
2. Solicit the cooperation of key senior officials

in organizing and conducting a meeting to discuss with them the identification, control, and reporting of identified risks within the various key operating areas of the bank holding company. Request that key senior management officials make or arrange for presentations during this meeting that will identify the major departments, functions, and activities within the organization and how MIS is used to identify and manage risk. (See SR-95-45, exhibit B.)
3. Draft the inspection report for participating examiners to review before the close of the on-site phase of the inspection, ensuring the inclusion of all relevant findings.

5052.0.5.2 Relevancy and Use of MIS

1. Review the organizational structure to determine reporting lines and the various levels of decision making, risk assessment, and controls. Determine if there are any corporate policies specific to risk management or internal reporting requirements.
2. Review the board and executive management committee structure, including its membership, mission, and authority and the experience levels of the members.
3. Read board and committee minutes and obtain sample copies of the board and committee packets.
4. Obtain a listing of internal reports that are submitted to corporate executive management and the board of directors. Ask that copies of each of these *top-level* reports be attached to the listing.
   a. Review each listed report for timeliness, clarity, completeness, relevancy, and measurability.
   b. Analyze the management reports for information sufficient to measure the company's progress in meeting its financial and business goals, including the ability to produce various forecasting scenarios.
5. Identify management procedures for reacting to elevated risk, weaknesses, or deficiencies disclosed by MIS. Evaluate the system's ability to handle regulatory and accounting issues and to adapt to change.
6. Discuss the examiners' perceptions of MIS reports with executive management as to their timeliness, clarity, completeness, relevancy, and measurability.

5052.0.5.3 MIS Integrity and Internal Controls

1. Review and analyze any policies, procedures, and practices governing the corporation's MIS, including descriptions of existing controls to ensure data integrity throughout the system, disaster-recovery plans, and standardized procedures for the development and use of systems and applications.
2. Review the architecture of MIS. Determine whether there is a single MIS system or a number of related systems. Ascertain if MIS is produced by the mainframe, distributed processors, personal computers, or a combination of these systems. Identify the databases in use for MIS reporting.
3. For each board and executive management report identified, review and verify the flow of data through MIS to the reports, include all computer platforms and application software used. Identify risk points and the controls in place to ensure data integrity. (See SR-95-45, exhibit C for a suggested format.)
4. For each report, verify the controls over data input and the report-distribution process. Determine that sufficient controls are in place to reasonably ensure the accuracy and confidentiality of the data.
5. Review all internal and external audit, regulatory examination, and outside consultant reports concerning MIS since the previous inspection. Note any deficiencies and/or recommendations, and determine whether management has taken appropriate corrective action. Perform follow-up action on any unresolved issues.
6. Through discussions with management and other personnel, determine if any significant changes to MIS are planned. If so, obtain and document the details and analyze their potential effect on MIS integrity.

5052.0.5.4 MIS Architecture and Planning

1. Review the corporate strategic, business, and computer architecture plans, if applicable, to determine if the architecture plan supports the strategic and business goals. The business plan should reflect goals in support of the strategic plan, and any differences between these plans should be reconciled. If a reconcilement has not been performed, request that management complete one during the inspection. Otherwise, complete the reconcilement.

2. Request (or create) a conceptual overview model to identify the flow of information through the organization. (See SR-95-45, exhibit D.)
3. Evaluate management's conversion planning process by selecting a recently converted or consolidated MIS application for review. This application will be emphasized when completing other sections of the work program.
4. After determining the extent of merger and acquisition activity at the institution, review conversion plans and the methodology for consolidating systems and ascertain their effectiveness.
5. Review a copy of development plans for any significant MIS-related projects. Determine if they address cited MIS weaknesses, meet strategic and business goals of the organization, and are in compliance with established policies.
6. Discuss with executive management any inconsistencies among the business, system architecture, and strategic plans.

Examiners' access to automated databases that include supervisory data on state member banks (SMBs) and bank holding companies (BHCs) has been significantly enhanced. In addition, the increased availability of copiers, fax machines, and personal computers has made it possible for SMBs and BHCs to more easily transfer data to Reserve Banks. As a result, the volume of information on SMBs and BHCs available to examiners in Reserve Bank offices has been greatly augmented, and many inspection activities that have traditionally been conducted in the field can now be completed in Reserve Bank offices.

The option to complete certain inspection activities in Reserve Bank offices has various advantages. For example, examiners' ability to access automation resources, reference materials, and senior staff is much better in the office than on-site. In addition, in completing more activities off-site, Reserve Banks can reduce the burdens of on-site evaluations of SMBs and BHCs. Further, greater reliance on off-site work can allow Reserve Banks to reduce travel-related expenses.

5060.0.1 CONDUCTING INSPECTION ACTIVITIES IN RESERVE BANK OFFICES

Examiners should conduct in Reserve Bank offices all inspection activities that can be efficiently and effectively completed off-site. Activities that may be completed off-site include planning the inspection, reviewing historical information, completing preliminary financial analyses, and preparing certain report pages using data maintained at Reserve Bank offices. For additional information, see SR-95-13 (SUP).

When using this approach, examiners should contact BHCs by letter and ask them to forward to Reserve Bank offices financial and other information to be used in the off-site portion of the inspection. Most information that has traditionally been requested in first day letters and made available to examiners at the start of an inspection should be requested, with the exception of documents such as minute books or bulky printouts that would be inappropriate or impractical to have sent. While it is anticipated that this approach will be preferred to approaches that require a longer on-site examiner presence, BHCs are not required to be inspected under this approach and should be given the option to be inspected using traditional on-site approaches. Given the burdens imposed on BHCs to prepare and mail materials to Reserve Bank offices, Reserve Banks should also offer to pay the shipping costs and give adequate lead time in requesting materials.

In the cases of certain shell BHCs, Reserve Banks are authorized to complete all inspection activities off-site on an every-other-inspection basis. As noted above, however, these BHCs should be given the option to be inspected using the traditional on-site approach. Noncomplex shell bank holding companies (NCSBHCs)[1] with less than $500 million in assets that on their last inspection were rated BOPEC 3 or better may be inspected off-site, subject to the following restrictions.

- If information becomes available to the Reserve Bank in the period between inspections suggesting that the condition of an organization is deteriorating significantly, an on-site inspection should be scheduled or commenced immediately if warranted.
- Deteriorating 3-rated BHCs are excluded and must be inspected on-site.
- When a BHC's lead bank subsidiary is an SMB, the inspection of the BHC should be carried out in the field concurrently with the examination of its lead bank.
- NCSBHCs in the same metropolitan statistical area as the Reserve Bank or its bank supervision staff should be inspected on-site unless there is good reason to do otherwise. Newly formed NCSBHCs or those that have recently undergone a change in control should also be inspected on-site.
- If a BHC is unable to forward the information necessary to conduct an off-site inspection, or if the company is assigned a BOPEC rating of 4 or 5 or is determined to be a deteriorating 3-rated organization as a result of an off-site inspection, an on-site inspection should be scheduled or commenced immediately if warranted.
- Information requested from the NCSBHC should include all information typically requested in a first day letter, as well as copies from the company's general and subsidiary ledgers that document all significant account-

1. Noncomplex shell bank holding companies are those without credit-extending nonbank subsidiaries or debt held by the general public whose condition is predicated almost entirely on the condition of subsidiary banks.

ing entries made since the last on-site inspection, copies of cancelled checks written since the last on-site inspection, copies of the BHC's notes payable and receivable, copies of all agreements between the BHC and its bank subsidiaries, and any other information considered necessary to complete an off-site inspection of the institution.
- Findings on the BHC's condition and compliance with laws and regulations should be conveyed to management by telephone or, if the situation requires, in person at company or Reserve Bank offices. The examiner-in-charge should then complete an inspection report for transmission to the company.

5060.0.2 OFF- AND ON-SITE BHC INSPECTION PROCEDURES—APPENDIX 1

This appendix includes inspection procedures that can be completed in the Reserve Bank's offices and those procedures that should be conducted on-site. A sample first day letter information request form is included.

5060.0.2.1 Activities That Can Be Completed in the Office

Work to be performed in the office in preparation for a bank holding company inspection should include the—

- determination of the scope of inspection,
- completion of financial schedules and certain other pages, and
- review of historical financial and supervisory data leading to preparation of draft financial analyses (for example, parent, subsidiary banks, consolidated entity).

In addition, if centralized management functions (for example, investments, asset/liability management, internal audit, or loan review) are performed by the bank holding company, a preliminary understanding of these functions can be obtained in the office by reviewing policies, reports, and other relevant materials. Further, if the bank holding company has nonbank subsidiaries, the preliminary risk assessment mandated by SR-93-19 (see sections 5010.7.3 and 5010.31) can be performed in the office, based on information submitted by the institution.

5060.0.2.2 BHC Inspection Activities That Should Be Conducted On-Site

The following inspection activities are recommended and should continue to be performed at the bank holding company:

- review of credit and investment files at holding company and nonbank subsidiaries for quality, documentation, and compliance with policy, laws, and regulations;
- in-depth discussions with management;
- verification of selected financial information;
- review of selected tax workpapers, including the review of intercompany tax allocations;
- observation of operations and internal controls;
- collection of follow-up documentation to complete the financial analysis;
- review of documents such as minute books for the holding company and nonbank subsidiaries and bulky printouts that would be inappropriate or impractical to have sent to the Reserve Bank's office;
- exit meetings with management.

5060.0.2.3 Sample Information Request for a Bank Holding Company

Information To Be Mailed to the Federal Reserve Bank

1. Exhibits A through N (See attachment #2, SR-95-13). Also, please assemble applicable workpapers that correspond to reported information for verification on-site.
2. The corporation's current legal-entity and management organization charts, detailing line and staff authority from the chairman of the board through the various division heads.
3. Copies of any strategic planning documents.
4. A copy of the most recent information package provided to the directors in connection with regular board meetings.
5. A copy of any other management reports that summarize the performance of the subsidiary banks.
6. Schedules of internal audits and internal loan reviews for the prior and current year. In addition, please furnish a copy of the most recent management letter provided to the corporation by its external auditing firm and management's formal response.
7. List of consolidated past-due, restructured, and nonaccrual loans and overdrafts; watch-list

report; and any results of internal loan-grading systems.

8. Loan-loss reserve adequacy evaluation (consolidated and lead bank). Include the most recent calculation for assessing the adequacy of the loan-loss reserve based on the organizations's internal methodology.

9. Risk-based capital analysis (consolidated and lead bank) for the most recent quarter-end and two prior year-ends, including workpapers. Break out guaranteed loans and loans secured by certificates of deposit. Also include the total amount and proportionate guarantee of each loan guaranteed by such entities as the FmHA, SBA, and VA.

10. Current and upcoming year's budgets (consolidated and lead bank).

11. A copy of any capital, dividend, or cash-flow plans or projections.

12. Most recent internal consolidated interest-rate-sensitivity analysis and liquidity analysis.

13. Parent-company consolidating entries and consolidated comparative financial statements as of the most recent quarter-end.

14. Parent-company-only comparative financial statements as of the most recent quarter-end.

15. The parent company's trial balance as of the most recent quarter-end.

16. Details of any items included in parent-company ''other'' assets, liabilities, income, or expense, which cannot be readily identified from the most recent quarter-end trial balance.

17. A summary of insurance coverage for the parent company and its subsidiaries. Please include a copy of the cover pages of each policy, along with the amount of coverage and expiration date. In addition, also indicate the most recent board approval of such coverage.

18. A detailed schedule of all consolidated borrowings as of the most recent quarter-end. Include the average interest rate paid on each type of borrowing.

19. For the parent company only, please provide the following information on all outstanding obligations: (a) amount outstanding, (b) lender (if publicly held, only note holders of greater than 10 percent), (c) origination and maturity dates, (d) interest rate and payable dates, (e) principal repayment schedule, and (f) reason for incurring debt.

20. A schedule of the fiduciary holdings of the parent company's stock and convertible debt by the parent's subsidiaries. Indicate the degree of investment authority the respective trust departments have over these shares.

21. Copies of all intercompany management and service agreements along with (1) the names of the staff members responsible for the administration of these activities and (2) documentation showing the basis of the assessments.

22. Litigation letter from the holding company's attornies relating to the status of all lawsuits in which the holding company or its subsidiaries is named defendant. If none, please submit a letter from an officer of the holding company indicating such.

23. A complete copy of all written policies that have been amended or adopted since the previous FRB inspection.

24. A copy of the bank's most recent Report of Condition and Income (call report), including the corresponding internal balance sheet and income statement (daily statement) for the lead bank.

25. Daily statement for the lead bank as of the inspection date.

26. Copies of any ''key man'' or ''split-dollar'' life insurance policies held at the holding company or the subsidiaries.

27. Copy of compensation agreements with subsidiary bank personnel who sell credit-related life insurance for the holding company, along with any tie-in policies, if applicable.

28. Copy of any other compensation arrangement either at the holding company or between the holding company and the subsidiary banks.

29. Most recent market-rate survey for local deposits at the lead bank.

30. For all nonbank subsidiaries, please provide (a) financial statements for the most recent quarter-end; (b) strategic plans; (c) directors' monthly reports; (d) internal audit reports; and (e) a trial balance of all credits, delinquency reports, nonperforming reports, and watch-listed loans for credit-extending subsidiaries.

Information To Be Provided at the Holding Company

31. Access to all written policies pertaining to specific operational areas (for example, due diligence/acquisitions, lending, funds management, tax allocation, and dividends).

32. Access to internal audit and internal loan review reports and workpapers.

33. Minutes of meetings of the board of directors, shareholders, and any committees. Please include a list of committees and their members, and fees paid to directors.

34. Holding company articles of incorporation and by-laws.

35. Stock register.

36. Access to federal tax returns filed since the most recent FRB inspection, along with workpapers. In addition, provide schedules of intercompany tax allocations for the corresponding periods, including projected allocations.

37. Access to parent company accounting records such as ledgers, journals, and check registers.

38. Access to monthly account-analysis statements for any parent company transaction accounts held at a subsidiary bank.

39. For all nonbank subsidiaries, please provide (a) directors' minutes; (b) annual budgets and cash flow projections; (c) checking account statements and check registers and/or cash receipts and disbursements registers; (d) a listing of directors and officers; and (e) access to credit policies and credit files for all nonbank credit-extending subsidiaries.

40. Access to due-diligence reports and workpapers and assimilation plans.

41. Any available information on local economic conditions.

5060.0.3 PROCEDURES FOR IMPLEMENTING OFF-SITE INSPECTIONS FOR CERTAIN SHELL BHCS—APPENDIX 2

This appendix includes procedures for implementing the program authorizing off-site inspections for certain shell BHCs. Listed below are general procedures that can be followed in implementing the program for off-site inspections of certain noncomplex shell bank holding companies (NCSBHCS). Sample documents are included that can be used in implementing the program, including examples of correspondence with eligible bank holding companies and a sample first day letter information request form.

5060.0.3.1 General Procedures for Off-Site Inspections

In implementing the program, Reserve banks should conform to the following procedures:

1. Senior management of bank holding companies should be notified before or early in the calendar year if their company qualifies for a full off-site inspection. They should also be informed that they may opt out of the off-site process and that, even if they choose to participate, the Reserve Bank may conduct the inspection on-site if conditions change or if, at some point during the year, examiners will be traveling to the company's vicinity to carry out other activities.

2. When the Reserve Bank is ready to conduct the off-site inspection, the holding company should be contacted by telephone, as well as by letter. An information request form should be attached to the letter.

3. After assigned examiners have reviewed information forwarded by the company, additional information may be requested by telephone or other means if deemed necessary. Once all necessary information has been received, the designated examiners should commence the off-site inspection.

4. Findings of the inspection should be conveyed to company management by telephone or, if the situation requires, at company or Reserve Bank offices.

5. The examiner-in-charge should then complete an inspection report for transmission to the company.

SAMPLE LETTER

Date:

BHC Official
BHC Name
Address

Dear BHC Official:

This year, the Federal Reserve Bank of New York will conduct off-site inspections of certain bank holding companies. Your company will be inspected during 19X0 and presently qualifies for an off-site review by our office.

As part of our off-site program, you will receive an information request form which must be completed and returned to the Reserve Bank. The Reserve Bank will reimburse you for postage expenses. The form requires responses to several questions, as well as submission of copies of certain holding company financial documents. Our examiners will review the information, complete their analysis, and discuss their findings with management, either by telephone conference or, if necessary, at the offices of your bank holding company. Following the off-site review, holding company management will receive a written report which will include the following:

- a description of the scope of the inspection;
- the examiner’s presentation of the financial condition and performance of the parent company and the subsidiary bank;
- an evaluation of the company’s compliance with laws and regulations; and
- the examiner’s comments, conclusions, and recommendations.

We have found that the off-site inspection program has proved attractive to many banking organizations. However, participation is not mandatory. Therefore, if you do not wish to participate, please sign and mail the enclosed form by DATE. We do want to make it clear, however, that while we plan to conduct an off-site review of your company if you accept this proposal, we still may conduct an on-site inspection if conditions change or if examiners are otherwise in your vicinity.

Should you have any questions concerning the off-site inspection program, please contact OFFICE STAFF MEMBER at (800) ___-____, extension ____.

Sincerely,

Officer
Title

Enclosure

SAMPLE RESPONSE FORM

OFF-SITE INSPECTION PROGRAM
FEDERAL RESERVE BANK OF NEW YORK
RESPONSE FORM

We do not wish to participate in the off-site inspection program in 19X0.

Name of Company: ______________________________

City: ______________________________

State: ______________________________

Signed: ____________________

Title: ____________________

SAMPLE LETTER

Date:

BHC Official
BHC Name
Address

Dear BHC Official:

Pursuant to our telephone conversation of (Date), an off-site inspection of (BHC Name), will be conducted by our office. Please respond to each item of the information request form attached and complete the enclosed schedules. Please be aware that all items submitted for review will be retained by our office and not returned to the company. Therefore, it is advisable to submit copies of records rather than originals. Upon receipt of the items requested, we will reimburse your bank holding company for the postage expense.

In order for us to use the off-site program, you must submit a complete response to this information request no later than (Date). If we are unable to satisfactorily resolve any issues arising from your response to this request, or if the information contained in your response is substantially incomplete, we will schedule the company for an on-site inspection.

Upon review of the information submitted, we will contact you to schedule a meeting with our examiners. If you have any questions concerning the inspection process or the preparation of your responses, please contact (Office Staff Member) at (800) ___-____, extension ____.

Sincerely,

Name
Examiner

Enclosures

SAMPLE INFORMATION REQUEST FORM

BHC
OFF-SITE INSPECTION CONDUCTED AS OF
DATE __/__/__

INFORMATION REQUEST FORM

Please submit or provide responses to the following (if non-applicable, answer N/A):

1. Statements for the most recent quarter and the two latest fiscal years:

   A. Parent Company -- Balance Sheet

   B. Parent Company -- Income Statement

   C. Parent Company -- Statement of Changes in Stockholders' Equity

   D. Bank -- Reports of Condition and Income (most recent quarter only)

   E. Reconciliation of the parent company's "Investment in Bank" account to the subsidiary bank's "Stockholders' Equity" as reported in the Reports of Condition

2. The bank's daily statement and income and expense statement dated __/__/X0.

3. Projected cash flow worksheet for the year 19X1 (see attached form).

4. Excerpts from the company's general ledger and subsidiary ledgers containing all significant accounting entries since __/__/__.

5. Detail of any "other assets" or "other liabilities" accounts for the company, as well as "other income" or "other expense" items, presented in financial statements requested above IF the amounts exceed $500.

6. Details on any liabilities, contingent or otherwise, not appearing in the financial statements.

7. A copy of the company's bank statements and its check register and/or cancelled checks issued since __/__/__.

8. A copy of any notes payable and/or receivable of the bank holding company (including a copy of any related loan agreements) if they have been put in place or amended since the last inspection.*

*The last inspection of __(BHC Name)__ was conducted on __(Date)__.

SAMPLE INFORMATION REQUEST FORM—Continued

- 2 -

9. A copy of any agreements originating since the last inspection between the company and the bank, between stockholders, or between the bank holding company and the stockholders.

10. A list of changes of specific services performed by the holding company for the bank or for any other company since the last inspection. Also indicate the method for computing fees, provide copies of any relevant agreements, and provide documentation supporting any management/service fee assessments.

11. For any changes to the parent company's investments in stocks of companies OTHER THAN subsidiaries, a list of the (1) date of acquisition/sale, (2) number of shares acquired/sold, (3) resulting percentage ownership, and (4) nature of business engaged in by the subject company.

12. A copy of any internally prepared reports of problem loans and nonperforming assets for the banking organization.

13. A list of any stock issuances or redemptions by the company since the last inspection, including the issue/redemption date and price. Also, list all stockholders and their percentage interest in the holding company as of __/__/__.

14. A statement of the date and amount of any capital injections into the bank since the last inspection.

15. A copy of the minutes of all shareholders'/directors' meetings for the company held since the last inspection.

16. For each director of the holding company, provide his or her (1) date of birth, (2) date first elected to the board, (3) position in the bank holding company, (4) position in the bank, (5) principal occupation if different than bank or bank holding company officer, (6) ownership percentage in other financial institutions, and (7) positions in other financial institutions.

17. A statement of any material litigation affecting the company or the bank.

18. A list of all tax transactions since __/__/__. These transactions would include those between the bank and the holding company as well as any transactions with the tax authorities. (See attached example.)

19. A copy of the last two years' federal and state income tax returns, including any amendments.

20. A copy of your accountant's workpapers showing the calculation of the holding company tax benefit or liability for the last two years.

SAMPLE INFORMATION REQUEST FORM—Continued

- 3 -

21. If the parent company filed for a tax loss carryback in the last two years, provide documents filed with the IRS and related prior-year tax returns.

22. A copy of the tax sharing agreement between the bank holding company and its bank subsidiary if amended or redated since the last inspection.

23. The date of the last IRS audit of the bank holding company's tax returns, an identification of the tax periods covered in the audit, and an indication of whether any assessments or refunds remain unsettled.

24. A copy of the bank's current year budget and operating projections, if available.

25. If the subsidiary bank maintains a correspondent balance at any creditor bank of the holding company, copies of (1) the monthly analysis of the account provided by the correspondent for the last 12 months, (2) any agreement whereby the loan to the holding company is contingent on the subsidiary bank maintaining such a balance, and (3) an explanation if the balances maintained by the subsidiary bank exceed the level required for services received.

26. If any Employee Stock Ownership Plan (ESOP) owns stock in the holding company, provide copies of (1) the ESOP plan and trustee agreement; (2) the ESOP's current balance sheet; (3) the independent appraisal used to determine the value of the holding company stock purchased by the ESOP; (4) any note payable, security agreement, loan agreement, and guarantees. Also provide (1) the date the plan was accepted by the IRS; (2) a description of the ESOP's current investments, including the date they were purchased and their cost; (3) the names of the individuals who have the power to vote the ESOP's stock; (4) a list of individuals having the power to make investments for the ESOP; and (5) a list of the beneficiaries of the ESOP.

27. Copies of the articles of incorporation and by-laws for the bank holding company, if amended since the last inspection.

28. If the holding company is selling insurance, list the (1) licensed agents employed by the company; (2) compensation received by each agent; (3) method for determining compensation; (4) a description of how customers of the bank are informed that they are not obligated to purchase insurance from the holding company in order to obtain credit; and (5) a breakdown of insurance accounts receivable, past due more than 90 days.

SAMPLE INFORMATION REQUEST FORM—Continued

- 4 -

29. If the subsidiary bank is providing the holding company with either personnel or facilities for the sale of insurance or any noninsured investment products, a statement indicating whether the subsidiary bank is reimbursed for its expenses. If the bank is reimbursed, a description of the method used to determine such amounts. Indicate when this reimbursement method was approved by the respective boards of directors.

30. If the holding company is involved in the sale of any non-insured investment products such as annuities or mutual funds, describe the program including any arrangements that involve the use of third-party brokers. If the holding company receives any share of the related commissions or lease income or if employees of the holding company or a nonbank subsidiary of the holding company are involved in the program, please describe.

31. Copies of the dividend policies of the holding company and the subsidiary bank. If no written policy exists, provide a description of the methods used to determine the amount of dividends paid by the bank holding company or any of its subsidiaries.

32. The dates and amounts of dividends paid by the subsidiary bank since the last quarter-end.

33. A description of any changes made to the holding company’s audit and/or credit review programs.

34. Details of any directors and officers liability insurance maintained by the organization or indemnification provisions adopted by the bank or bank holding company.

35. For banker’s blanket bond and excess fidelity bond coverage, please provide (1) name of surety; (2) form number; (3) primary and excess amount of coverage; (4) expiration date; (5) name of insured; (6) an indication of whether all officers and employees of the holding company, bank, and any nonbank subsidiaries are covered; (7) the date the insurance coverage was last approved by the bank holding company’s board of directors and the bank’s board of directors; and (8) a description of how insurance premiums are allocated among the entities of the organization.

36. Details of any significant transactions since __/__/__ not already described in responses to the above questions.